九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

Annual Report 年報 2016

Kowloon Development Company Limited

九龍建業有限公司

Kowloon Development Company Limited (Stock Code: 34) has been pursuing a three-tier development strategy in the Greater China region, with its core property business in the Hong Kong and Mainland China markets, and carrying out its Macau property business through its 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited (Stock Code: 208). The Group is now well positioned in all three markets, with its attributable landbank amounting to approximately 5 million sq m. It is committed to enhancing its competitive advantages and to become one of the few listed companies in Hong Kong to have capacity to grow significantly in all three markets.

九龍建業有限公司（股份代號：34）一直在大中華地區奉行三線發展策略，核心業務為香港及中國大陸市場之地產業務，並通過其擁有73.4%權益之上市附屬公司保利達資產控股有限公司（股份代號：208）經營澳門地產業務。集團目前在區內三大市場作出卓越部署，其應佔土地儲備約為5,000,000平方米，並致力提升本身之競爭優勢，目標成為少數能夠在三大市場取得顯著增長之香港上市公司之一。

Artist's Impression of Pok Fu Lam Road Project (Hong Kong)
薄扶林道項目（香港）之電腦構想圖

Contents

South Coast (Hong Kong)

Corporate Information

Board of Directors and Committees

Board of Directors

Executive Directors
Or Wai Sheun *(Chairman)*
Lai Ka Fai
Or Pui Kwan
Lam Yung Hei

Non-executive Directors
Ng Chi Man
Yeung Kwok Kwong

Independent Non-executive Directors
Li Kwok Sing, Aubrey
Lok Kung Chin, Hardy
Seto Gin Chung, John
David John Shaw

Committees

Executive Committee
Or Wai Sheun *(Chairman)*
Lai Ka Fai
Or Pui Kwan
Lam Yung Hei
Yeung Kwok Kwong

Audit Committee
Li Kwok Sing, Aubrey *(Chairman)*
Lok Kung Chin, Hardy
Seto Gin Chung, John
Yeung Kwok Kwong

Nomination Committee
Or Wai Sheun *(Chairman)*
Lok Kung Chin, Hardy
David John Shaw

Remuneration Committee
Seto Gin Chung, John *(Chairman)*
Lai Ka Fai
Li Kwok Sing, Aubrey
Lok Kung Chin, Hardy

Corporate and Shareholders' Information

Company Secretary
Lee Kuen Chiu

Independent Auditor
KPMG
Certified Public Accountants

Authorised Representatives
Lai Ka Fai
Lee Kuen Chiu

Legal Adviser
Sidley Austin

Share Registrar
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registered Office
23rd Floor, Pioneer Centre, 750 Nathan Road,
Kowloon, Hong Kong
Telephone: (852) 2396 2112
Facsimile: (852) 2789 1370
Website: www.kdc.com.hk
E-mail: enquiry@kdc.com.hk

Artist's Impression of the second phase development of Le Cove Garden (Huizhou)

Corporate Information

Stock Code
The Stock Exchange of Hong Kong Limited: 34

Principal Bankers
ANZ Bank
Bank of China
Bank of Communications
Bank of East Asia
Chiyu Banking Corporation
Chong Hing Bank
Hang Seng Bank
Nanyang Commercial Bank
Standard Chartered Bank
United Overseas Bank

Financial Calendar

Interim results announcement	24 August 2016
Interim dividend paid	13 December 2016
Annual results announcement	22 March 2017
2017 Annual General Meeting	7 June 2017
Ex-dividend date for final dividend	15 June 2017
Closure of register of members	
– 2017 Annual General Meeting	2 June 2017 – 7 June 2017 (both dates inclusive)
– Final dividend	19 June 2017 – 20 June 2017 (both dates inclusive)
Final dividend payable	5 July 2017

Group's Business Structure

KOWLOON DEVELOPMENT COMPANY LIMITED

(A member of the Polytec Group)
Stock Code: 34

HONG KONG PROPERTY

Property Development

Major development projects:

- Upper East
- Pok Fu Lam Road
- Lei Yue Mun
- Clear Water Bay Road

Development Landbank:
259,000 sq m

Property Investment

Flagship investment property:

- Pioneer Centre

Investment Landbank:
53,000 sq m

Property Management

Properties under management:
1,185,000 sq m

MAINLAND CHINA PROPERTY

Property Development

Major development projects:

- Le Cove City (Shenyang)
  江灣城（瀋陽）
- The Gardenia (Shenyang)
  翠堤灣（瀋陽）
- Le Cove Garden (Huizhou)#
  江灣南岸花園（惠州）
- The Lake (Foshan)
  山語湖（佛山）
- Le Cove City (Wuxi)
  江灣城（無錫）
- City Plaza (Tianjin)
  城市廣場（天津）

Development Landbank:
3,710,000 sq m

POLYTEC ASSET HOLDINGS LIMITED

Stock Code: 208
73.4%

MACAU PROPERTY

Property Development

Major development projects:

- Pearl Horizon#
- La Marina#

Development Landbank:
525,000 sq m

Property Investment

Major investment property:

- The Macau Square

Investment Landbank:
13,000 sq m

ENERGY BUSINESS

Oil

Oil production and exploration in Kazakhstan

OTHERS

Ice & Cold Storage

The Hong Kong Ice & Cold Storage Company Limited is one of the largest ice making distributors in Hong Kong

The development of these projects is under co-investments with Polytec Holdings International Limited and two of its wholly-owned subsidiaries respectively.

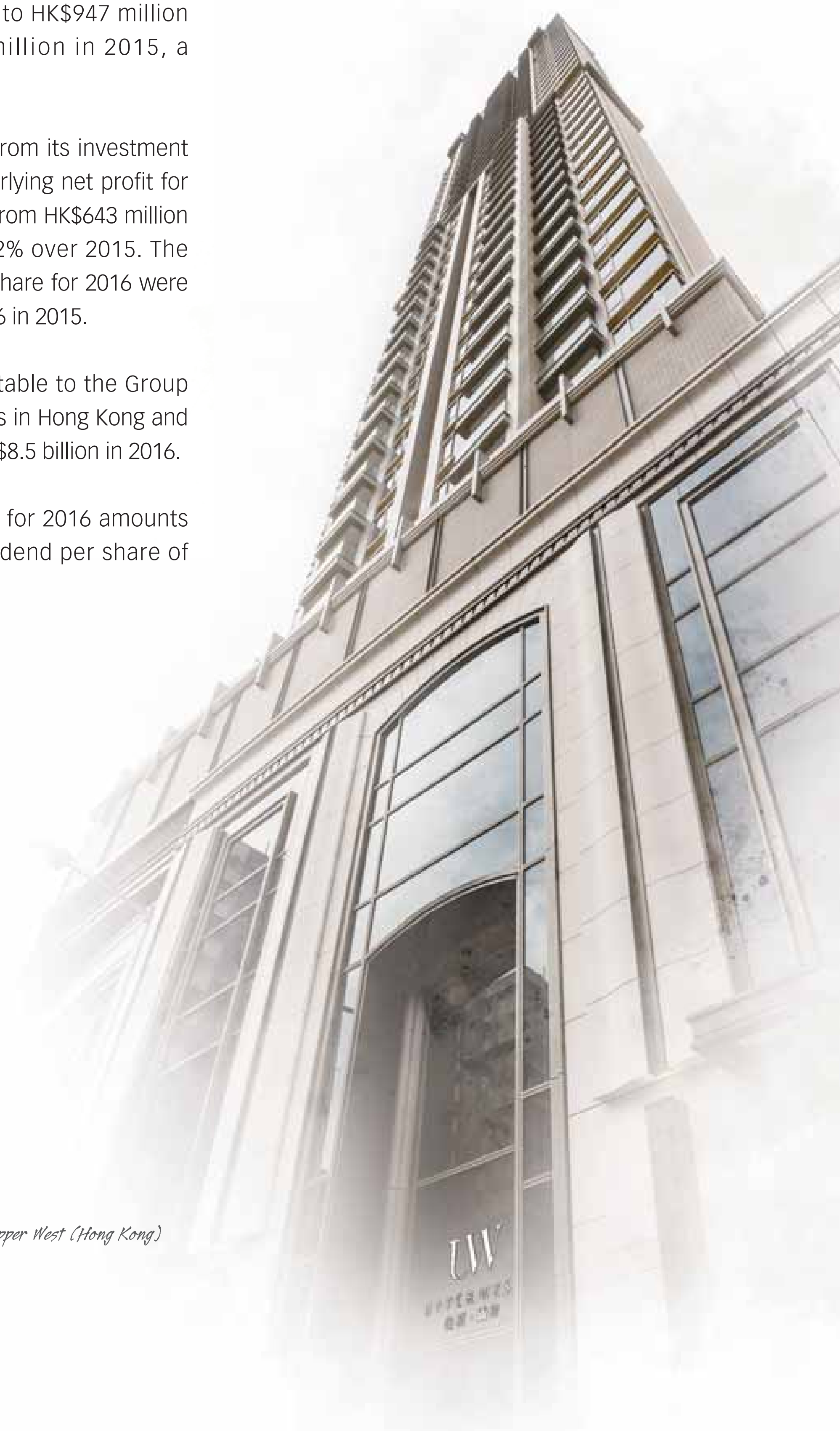
Highlights

- For the year ended 31 December 2016, the Group's net profit attributable to shareholders of the Company amounted to HK$947 million compared to HK$1,202 million in 2015, a decrease of 21.2%.

- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2016 rose to HK$818 million from HK$643 million in 2015, an increase of 27.2% over 2015. The underlying net earnings per share for 2016 were HK$0.71 compared to HK$0.56 in 2015.

- Total presales/sales attributable to the Group from its development projects in Hong Kong and Mainland China exceeded HK$8.5 billion in 2016.

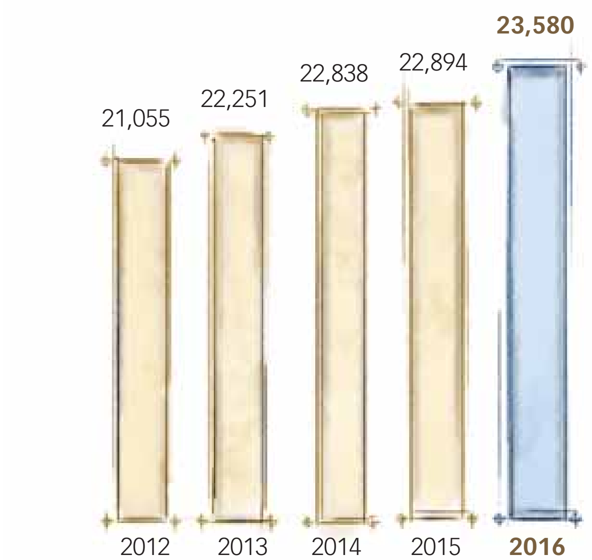
- Full year dividend per share for 2016 amounts to HK$0.60, with a final dividend per share of HK$0.39.



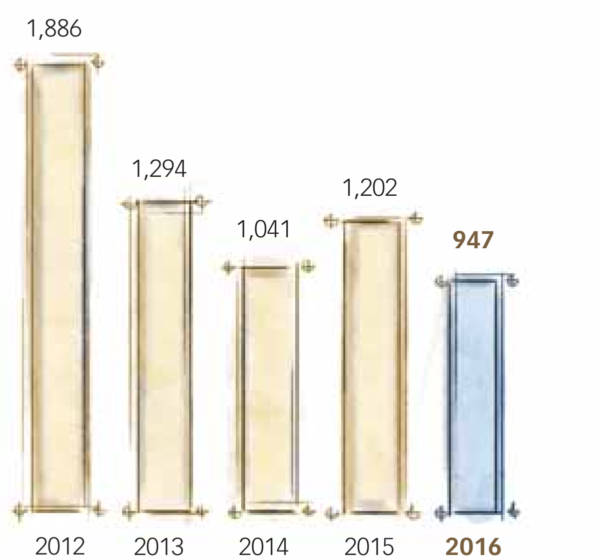
Upper West (Hong Kong)

Five-Year Financial Summary

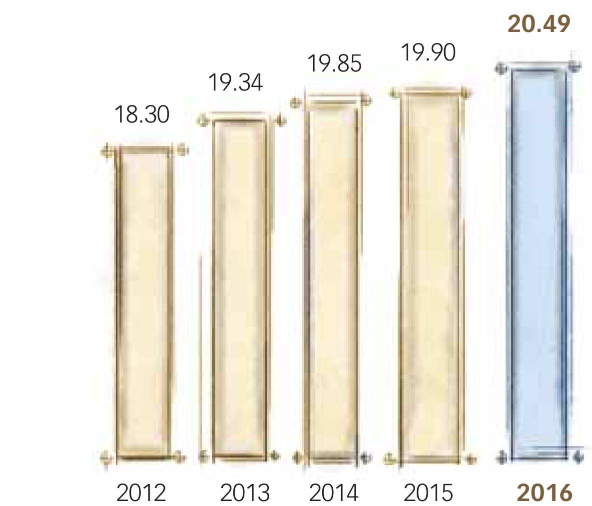
Shareholders' Equity
HK$ million



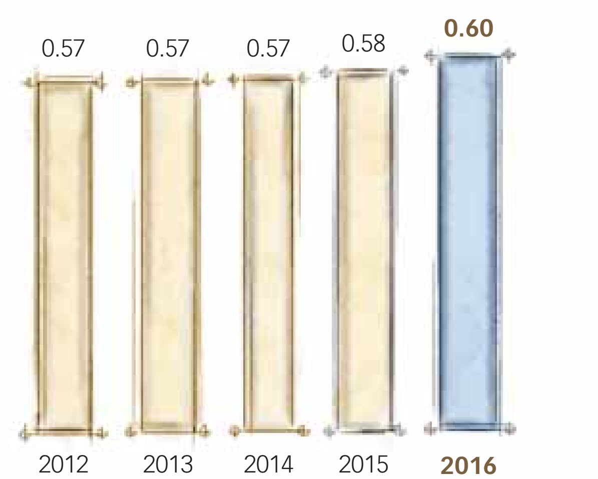
Profit Attributable to Shareholders
HK$ million



Net Asset Value per Share
HK$



Dividends per Share
HK$



Key Consolidated Income Statement Data

HK$ million	2012	2013	2014	2015	**2016**
Revenue	2,556	1,417	3,150	3,993	**6,778**
Profit from Operations	1,906	1,065	1,187	1,275	**796**
Profit Attributable to Shareholders	1,886	1,294	1,041	1,202	**947**
Earnings per Share *(HK$)*	1.64	1.12	0.90	1.04	**0.82**
Underlying Profit Attributable to Shareholders *(Note 2)*	968	388	618	643	**818**
Underlying Earnings per Share *(HK$) (Note 2)*	0.84	0.34	0.54	0.56	**0.71**
Dividends	656	656	656	668	**690**
Dividends per Share *(HK$)*	0.57	0.57	0.57	0.58	**0.60**

Key Consolidated Statement of Financial Position Data

HK$ million	2012	2013	2014	2015	**2016**
Non-Current Assets	26,149	28,764	29,386	30,430	**31,783**
Current Assets	15,128	16,396	19,075	19,047	**14,789**
Total Assets	41,277	45,160	48,461	49,477	**46,572**
Current Liabilities	(5,453)	(5,613)	(8,039)	(9,073)	**(8,723)**
Non-Current Liabilities	(11,683)	(14,113)	(14,343)	(14,300)	**(10,758)**
Net Assets	24,141	25,434	26,079	26,104	**27,091**
Share Capital	115	115	8,417	8,417	**8,417**
Reserves	20,940	22,136	14,421	14,477	**15,163**
Shareholders' Equity	21,055	22,251	22,838	22,894	**23,580**
Non-controlling Interests	3,086	3,183	3,241	3,210	**3,511**
Total Equity	24,141	25,434	26,079	26,104	**27,091**
Net Asset Value per Share *(HK$)*	18.30	19.34	19.85	19.90	**20.49**
Gearing Ratio *(%) (Note 3)*	56.11	62.50	59.28	61.02	**49.29**

Notes:

1. The financial information in this summary is extracted from the published financial statements for the last five years.
2. Underlying profit excludes revaluation gain of investment properties.
3. Gearing ratio represents bank borrowings, loans from ultimate holding company and a fellow subsidiary and net of cash and bank balances over equity attributable to shareholders of the Company.

Chairman's Statement

City Plaza (Tianjin)

Group Results and Dividends

For the year ended 31 December 2016, the Group's net profit attributable to shareholders of the Company amounted to HK$947 million compared to HK$1,202 million in 2015, a decrease of 21.2%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2016 rose to HK$818 million from HK$643 million in 2015, an increase of 27.2% over 2015. The underlying net earnings per share for 2016 were HK$0.71 compared to HK$0.56 in 2015. Total presales/sales attributable to the Group from its development projects in Hong Kong and Mainland China exceeded HK$8.5 billion in 2016.

The Board of Directors has recommended the payment of a final dividend of HK$0.39 per share (2015: HK$0.37) for the year ended 31 December 2016. Together with the 2016 interim dividend of HK$0.21 per share (2015: HK$0.21), the full year dividend for 2016 amounts to HK$0.60 per share (2015: HK$0.58).

The final dividend will be payable on Wednesday, 5 July 2017 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 20 June 2017, subject to the approval of shareholders at the 2017 Annual General Meeting.

Market Overview and Business Review

In Hong Kong, the recovery in the residential property market since the second quarter of 2016 was solid, with overall transaction volumes picking up substantially in the second half of 2016, up over 70% from the first half of 2016 and transacted prices also rising gradually, up 11% in December 2016 from the lows in the first quarter of 2016. The strong rebound in the transaction volumes in the second half of 2016 has been particularly evident in the primary residential market, rising 98% from the first half of 2016, which has benefitted from improving market sentiment and prevailing low interest rates together with the incentive schemes offered by property developers to boost their property sales.

In Mainland China, the strong revival in the housing market since the start of 2016 has been largely seen in the first-tier and some of the second-tier cities, where the housing prices have been rising rapidly and the rate of increase in the transacted prices exceeded the Central Government's directive for the property market, that is, to maintain a healthy and stable development. As a result, additional restrictive measures on the property market have been imposed. After imposition of various cooling measures sequentially, both transacted prices and transaction volumes have slowed considerably. Therefore, the purchasing power is expected to shift to those cities with no home-buying restrictions. This would benefit some of the third- and fourth-tier cities.

In Macau, following a two-year downturn, overall housing activity saw a strong rebound in 2016, average transacted residential property prices rising over 20% in the second half of 2016 from the trough in the first half and more importantly, the residential transaction volumes in 2016 surging remarkably, up an average of 70% following a decline of 37% and 22% in 2014 and 2015 respectively.

Development Property Sales

In Hong Kong, the Group obtained the occupation permits for Upper West and South Coast, its 100%-owned development projects in Tai Kok Tsui and Aberdeen, in February and November 2016 respectively, with all residential units at Upper West and over 93% residential units at South Coast being sold so far. Total attributable sales proceeds from all the Group's development projects currently for sale amounted to approximately HK$1.7 billion in 2016.

In Mainland China, the Group actively launched additional residential units for presale/sale for the year under review. They were well received by the market, particularly the Group's 49%-owned development project in Tianjin, City Plaza which alone generated attributable presales exceeding RMB3 billion in 2016. Total attributable presales/sales proceeds from all the Group's development projects, among others, the joint venture project in Foshan, a 49%-owned project in Tianjin and a 60% interest project in Huizhou, amounted to approximately RMB6.3 billion (approximately HK$7.1 billion) in 2016.

In Macau, the topping-out of the superstructure work of the Lotes T + T1 development project (La Marina) was completed in the fourth quarter of 2016 and the façade and interior fitting-out works are being expedited. For the year under review, the Group did not launch any presales/sales in Macau and therefore no sales were recorded for 2016.

Artist's Impression of the second phase development of The Gardenia (Shenyang)

Artist's Impression of the second phase development of Le Cove City (Wuxi)

Artist's Impression of the high-rise residential development of The Lake (Foshan)

Artist's Impression of the fourth phase development (service apartment) of Le Cove City (Shenyang)

With respect to the Lote P development project (Pearl Horizon) in Macau, Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly-owned subsidiary of the ultimate holding company of the Company, has applied to the Courts of Macau to claim for compensation of time. If the applications are ultimately declined, the Macau Government would have a right to resume the land without any compensation to the owner of the land. Nevertheless, based on the opinions provided by the Group's legal counsel, PCL has strong legal grounds to obtain confirmation from the Courts of Macau that the administrative delays had been caused by the relevant government authorities and therefore PCL is entitled to obtain compensation of time to enable it to complete the project. Currently, the Group is still awaiting hearing dates to be fixed by the Courts of Macau for the legal proceedings.

Property Development

In Hong Kong, following the Group's appeal against the land premium assessed for Tseung Kwan O Town Lot No. 121 (the "New Lot"), which is a new site for which the Group proposed a land exchange for its currently owned land in Tseung Kwan O with the government, in September 2015 and subsequently a series of negotiations with the Lands Department, the Sai Kung District Lands Office revised its offer of the premium for the New Lot in December 2016. The Group reached an agreement with the government, with the premium offer being officially accepted by the Group on 18 January 2017. After completion of the formalities of the land premium and the land exchange in April 2017, the New Lot will be wholly-owned by the Group. The site area of the New Lot is approximately 9,635 sq m, with a maximum gross floor area ("GFA") for private residential development of 48,200 sq m, which will strengthen the Group's readily developable landbank in Hong Kong.

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for 2016 fell to HK$341 million, a decrease of 1.1% over 2015, with the overall occupancy rate for the property investment portfolio remaining high at approximately 95% as of 31 December 2016.

The decrease in rental income in 2016 was mainly due to the unexpected close down of DSC, a furniture chain store and one of the top tenants which occupied units over 7% of total floor area of Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, in August 2015 and subsequent considerable period of time marketing the units which reduced overall rental income in 2016. Encouragingly, the units previously occupied by DSC were approximately 90% re-let by 31 December 2016. Total rental income from Pioneer Centre fell 1.3% to HK$290 million in 2016, with most of retail spaces and offices being let as of 31 December 2016.

Other Businesses through Polytec Asset Holdings Limited ("Polytec Asset")

The Group's exposures to property investment in Macau, the oil business and the ice manufacturing and cold storage business are through its 73.4%-owned listed subsidiary, Polytec Asset. Their respective operational results are as follows:

Property Investment in Macau

For the year under review, the Group's share of gross rental income generated from its investment properties rose to HK$58.2 million, representing an increase of 16.1% over 2015. The improvement in income was mainly due to an increase in rents from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group rising to HK$53.9 million in 2016 from HK$46.4 million in 2015.

Oil

The oil segment recorded an operating loss of HK$30.2 million in 2016 compared to an operating loss of HK$164 million in 2015. While the operating loss in 2015 was mainly due to the impairment provision of HK$170 million made for the Group's oil assets in Kazakhstan, the operating loss for 2016 was attributable to a further decline of 15% for the period from 2015 in crude oil prices. No further impairment was made for the Group's oil assets in Kazakhstan in 2016 because for the year under review the international oil prices rose from their lows in the first quarter and reached above US$50 per barrel as at 31 December 2016, anticipating the trend of international oil prices to gradually recover from its current lows in the coming years.

Ice Manufacturing and Cold Storage

During the year, the total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$34.2 million, an increase of 21.5% over 2015. The increase in operating profit was attributable to an overall improvement in operations and business expansion.

Business Strategy

The Group has been pursuing a three-tier development strategy with exposure in the three major property markets in the Greater China region, Hong Kong, Macau and Mainland China. Over the past ten years, it has built a sizeable and quality development landbank across these three markets, at a relatively competitive cost, with the GFA attributable to the Group amounting to approximately 5 million sq m as of 31 December 2016.

PROSPECTS

In Hong Kong, despite additional measures imposed by the government to cool the housing market in November 2016, the impact on the property market was only short-lived. With the prevailing low interest rates and the record high transacted land prices in the recent land auctions, sentiment in the primary property market has been holding up well, with home buyers' confidence remaining generally strong. In view of favourable market sentiment, the Group will continue to promote the sale of a small number of remaining units of its four wholly-owned development projects, and it intends to launch the presale of its high-end residential development project in Pok Fu Lam Road in the second quarter of 2017.

In Mainland China, as the housing prices in the majority of first- and second-tier cities surged noticeably in 2016, further restrictive measures on the housing market will likely be imposed by the government in the near future. However, the Group will continue to expedite the sale of residential units of its various projects this year as it did in 2016. In addition, the Group will also continue to explore good investment opportunities and replenish its landbank in the first-tier and their neighbouring cities, with some of the development projects in negotiation likely to be concluded shortly further strengthening its landbank.

In Macau, the topping-out of superstructure work of the Lotes T + T1 development project (La Marina) was completed in the fourth quarter of 2016. The Group is making best efforts to expedite the façade and interior fitting-out works and the progress is satisfactory. The Group will endeavour to ensure that an occupation permit is obtained by the middle of 2017 and that the completed residential units will be delivered to the buyers in the fourth quarter of 2017. The related income from the project is expected to make a contribution to the Group's earnings in the coming years. With respect to the Lote P development project (Pearl Horizon), all possible approaches are being actively explored in order to be able to resume the construction work as soon as possible.

Looking ahead, the Group's core income for 2017 will be mainly generated from its property development projects in Hong Kong and Mainland China. In addition, the sales from the property development project in Macau, Lotes T + T1 (La Marina), are expected to be recognised from 2017 onwards. Furthermore, the Group expects its property investment portfolios in Hong Kong and Macau, as well as its ice manufacturing and cold storage business, will continue to generate stable income in 2017. For the Group's oil business, it believes that the rate of increase in crude oil prices will slow down in 2017 and therefore the oil business in Kazakhstan is not expected to make a contribution to its earnings in 2017. The Group will fully assess its oil business in 2017 aiming to come up with the best strategy for it.

While overall property development in the Greater China region has faced substantial cost pressures over the past few years, the Group remains well positioned in Mainland China, Macau and Hong Kong, with its relatively competitive landbank in all three markets, having laid a solid foundation for sustainable earnings growth for the coming years.

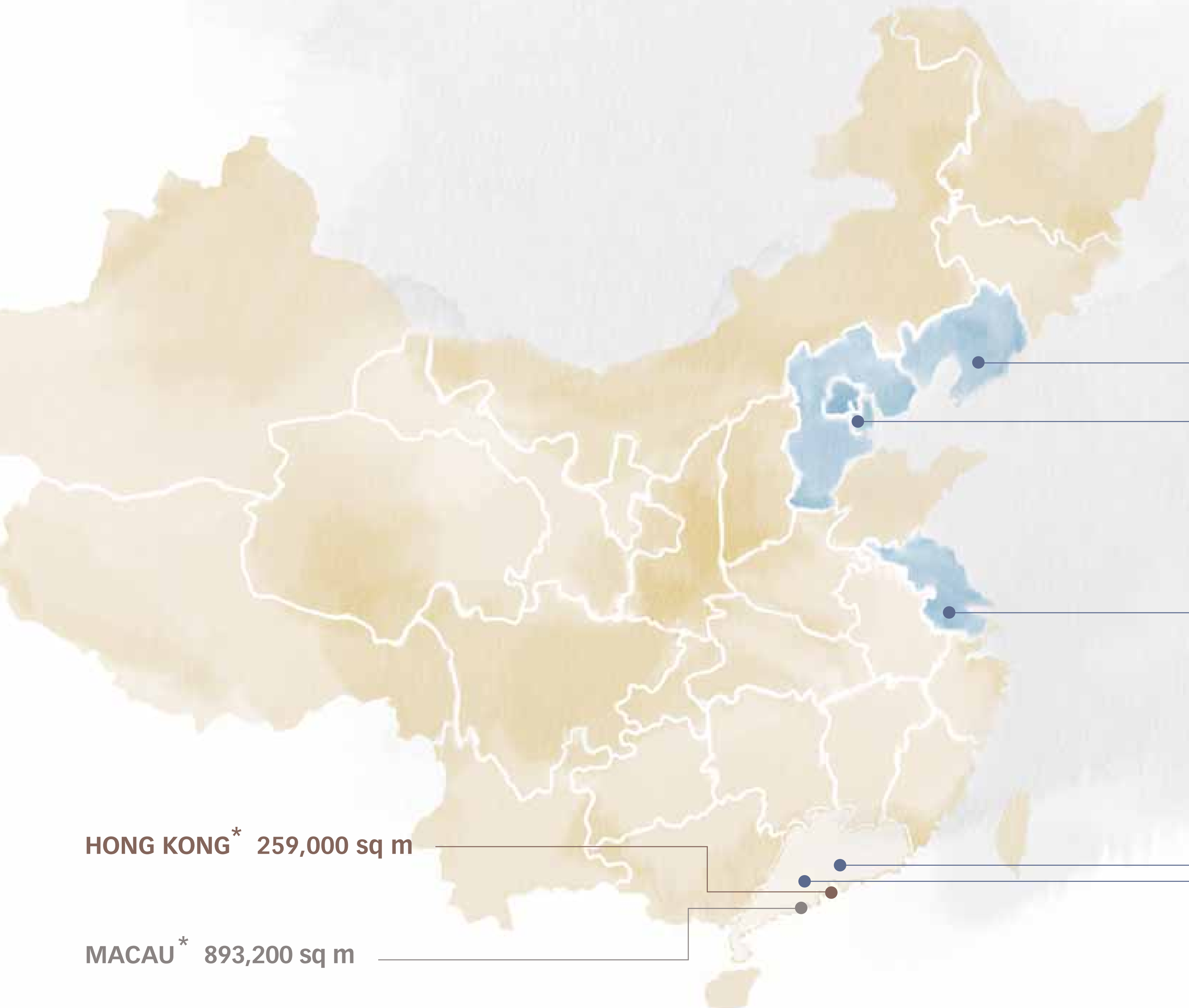
The Group is currently facing different challenges in each of the three markets it presently has exposure and I would like to take this opportunity to express my heartfelt gratitude and appreciation to my fellow directors for their support and all staff for their dedication, hard work and contribution.

Or Wai Sheun
Chairman

Hong Kong, 22 March 2017

Review of Operations

Group's major projects under development in the Greater China Region



* representing 100% project coverage in total gross floor area

Key Operating Results for 2016

Total operating profit in the property development segment amounted to HK$925 million, which was mainly generated from sales recognised from development projects in Hong Kong and Mainland China.

MAINLAND CHINA* 6,086,300 sq m

Shenyang 2,712,000 sq m

Tianjin 850,000 sq m

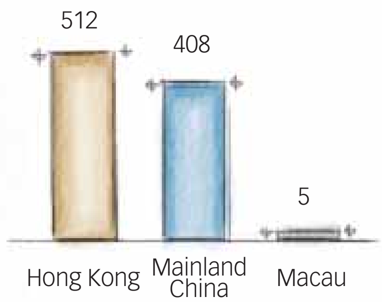
Wuxi 404,400 sq m

Huizhou 519,900 sq m

Foshan 1,600,000 sq m

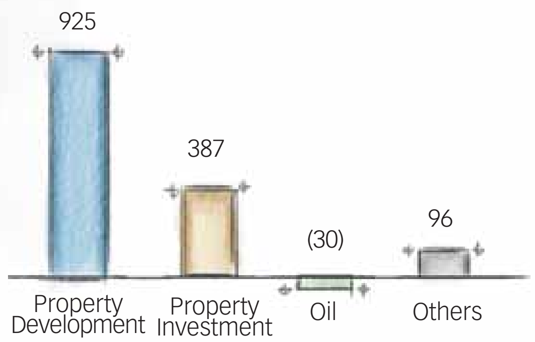
Operating Profit – Property Development Geographic Distribution for 2016

HK$ million



Operating Profit/(Loss) by Segment for 2016

HK$ million



Property Development

As of 31 December 2016, the Group's landbank for development amounted to approximately 5 million sq m of attributable gross floor area. The Group's major property projects under planning and development are set out as follows:

Hong Kong

Upper East

The site is located at 23 Sung On Street in Hung Hom. This residential and commercial redevelopment site covers a total site area of approximately 4,038 sq m and a total gross floor area for redevelopment of approximately 34,100 sq m. This residential and commercial development project is wholly-owned by the Group.

Artist's Impression

Location
23 Sung On Street, Hung Hom, Kowloon, Hong Kong

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
4,038 sq m

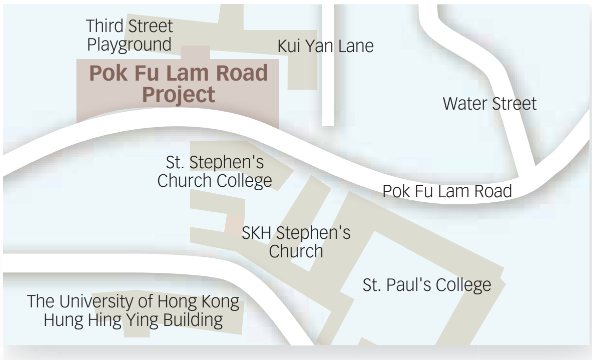
Approx. Total Gross Floor Area
34,100 sq m

Status
Construction work in progress

Expected Date of Completion
2018

Pok Fu Lam Road Project

The site is located at 63 Pok Fu Lam Road. It will be redeveloped into two high-end residential towers with retail shops on the ground floor and car parking spaces on the basement floor, covering a total gross floor area of approximately 12,200 sq m. This residential and retail development project is wholly-owned by the Group.



Artist's Impression

Location
63 Pok Fu Lam Road, Hong Kong

Usage
Residential and Retail

Group's Interest
100%

Approx. Total Site Area
1,388 sq m

Approx. Total Gross Floor Area
12,200 sq m

Status
Foundation work in progress

Expected Date of Completion
2020

Lei Yue Mun Project

The site is located at 1 Lei Yue Mun Path in Lei Yue Mun. The Group intends to develop this wholly-owned site into a residential and retail complex with a public car park, with a total gross floor area of approximately 29,200 sq m.

Artist's Impression

Location
1 Lei Yue Mun Path,
Lei Yue Mun, Kowloon,
Hong Kong

Usage
Residential and Retail

Group's Interest
100%

Approx. Total Site Area
3,240 sq m

Approx. Total Gross Floor Area
29,200 sq m

Status
Construction work in progress

Expected Date of Completion
2019

Clear Water Bay Road Project

The site is located at 35 Clear Water Bay Road in Ngau Chi Wan and is wholly-owned by the Group. The General Building Plan has been approved for a residential and commercial development with a total gross floor area of approximately 196,400 sq m, including a shopping arcade, club house and car parking facilities.

Location
35 Clear Water Bay Road,
Ngau Chi Wan, Kowloon,
Hong Kong

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
19,335 sq m

Approx. Total Gross Floor Area
196,400 sq m

Status
Land premium negotiation in progress

Expected Date of Completion
To be determined

Mainland China

Le Cove City (Shenyang)
江灣城（瀋陽）

The site is located along the Hun River at 6 Hun Nan Er Road of the Hun Nan Xin District in Shenyang. This residential and commercial development project is wholly-owned by the Group, with a planned total gross floor area of approximately 712,000 sq m.

Location
6 Hun Nan Er Road,
Hun Nan Xin District,
Shenyang, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
165,303 sq m

Approx. Total Gross Floor Area
712,000 sq m

Approx. Total Gross Floor Area Booked
248,100 sq m

Status
Construction work for the fourth phase in progress

Expected Date of Completion
Fourth phase 2018

Artist's Impression of the fourth phase development (service apartment)

The Gardenia (Shenyang)
翠堤灣(瀋陽)

The site is located on the west side of Daba Road of the Shenhe District, which is one of the five main central districts in Shenyang. This residential and commercial project is wholly-owned by the Group, with a planned total gross floor area of approximately 2,000,000 sq m.

Artist's Impression of the third phase development

Artist's Impression of the third phase development

Location
West of Daba Road,
Shenhe District,
Shenyang, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
1,100,000 sq m

Approx. Total Gross Floor Area
2,000,000 sq m

Approx. Total Gross Floor Area Booked
329,800 sq m

Status
Construction work for the first phase B in progress

Expected Date of Completion
First phase B 2017

Le Cove Garden (Huizhou)
江灣南岸花園(惠州)

The site is located at Dongjiang North Shore Wangjiang Lot of the Huicheng District in Huizhou and has a permanent natural river view at its south east side, with provincial park facilities and convenient traffic to the central business district of Dongjiang North Shore in Huizhou. The Group has a 60% interest in this residential and commercial development project, with a total gross floor area of approximately 519,900 sq m.

Location
Dongjiang North Shore,
Wangjiang Lot,
Huicheng District,
Huizhou, China

Usage
Residential and Commercial

Group's Interest
60%

Approx. Total Site Area
146,056 sq m

Approx. Total Gross Floor Area
519,900 sq m

Approx. Total Gross Floor Area Booked
82,300 sq m

Status
Construction work for the second phase in progress

Expected Date of Completion
Second phase 2018

Artist's Impression of the second phase development (low-rise buildings)

Artist Impression of the second phase development

The Lake (Foshan)
山語湖(佛山)

The site is located in the Nanhai District of Foshan (Guangdong Province), with a sizeable site area of approximately 4,020,743 sq m. This is a joint venture residential and commercial development project of the Group. The site is endowed with unique geographical advantages, surrounded by lakes, a wetland nature reserve zone and woods. It is being developed as one of the most emblematic residential communities in Foshan, with a total gross floor area of approximately 1,600,000 sq m.

Location
Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, China

Usage
Residential and Commercial

Group's Interest
50%

Approx. Total Site Area
4,020,743 sq m

Approx. Total Gross Floor Area
1,600,000 sq m

Approx. Total Gross Floor Area Booked
648,600 sq m

Status
Construction work for the fourth phase of high-rise residential towers in progress

Expected Date of Completion
Fourth phase of high-rise residential towers 2017

Artist's Impression of the terrace house development

Artist's Impression of the high-rise residential development

Le Cove City (Wuxi)
江灣城(無錫)

The site is located in the Chong An District, a central business district of Wuxi, with a total site area amounting to approximately 68,833 sq m. The Group has an 80% interest in this project, with a total gross floor area of approximately 404,400 sq m.

Location
Tongyun Road and Gongyun Road,
Chong An District,
Wuxi, China

Usage
Residential and Commercial

Group's Interest
80%

Approx. Total Site Area
68,833 sq m

Approx. Total Gross Floor Area
404,400 sq m

Approx. Total Gross Floor Booked
61,300 sq m

Status
Construction work for the second phase in progress

Expected Date of Completion
Second phase 2017

Artist's Impression of the second phase development

Artist's Impression of the third phase development

City Plaza (Tianjin)
城市廣場(天津)

The site is located in a new commercial and business area of the Hedong District, Tianjin. This residential and commercial development project is 49%-owned by the Group and has a total gross floor area of approximately 850,000 sq m. There is an additional underground gross floor area of approximately 35,000 sq m for the commercial portion. It will be developed into a modern residential and commercial complex with luxury residential towers, office buildings, a five-star hotel and a first-class shopping arcade.

Location
Lot No. Jin Dong Liu 2004-066, intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, China

Usage
Residential and Commercial

Group's Interest
49%

Approx. Total Site Area
135,540 sq m

Approx. Total Gross Floor Area
850,000 sq m

Approx. Total Gross Floor Area Booked
29,300 sq m

Status
Certificate of completion for the second phase obtained in December 2016

Expected Date of Completion
Third phase to be determined

Macau

The Group's property interests in Macau are held through its listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset"), 73.4%-owned by the Company. Details of the development projects are as follows:

Pearl Horizon

Pearl Horizon is located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with an aggregate total site area of approximately 68,000 sq m. Polytec Asset has an 80% interest in this project. It will be developed into various luxury residential towers, together with a large shopping arcade, a five-star club house and numerous car parking spaces, with a total gross floor area of approximately 697,600 sq m. Construction is currently suspended due to the legal proceedings.

La Marina

La Marina is located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with combined aggregate total site area of approximately 17,900 sq m. The site is now developed into six high-end residential towers with retail shops and car parking facilities, with a total gross floor area of approximately 195,600 sq m. Polytec Asset has an 80% interest in this project.

Location
Lotes T + T1,
The Orient Pearl District,
Novos Aterros da Areia Preta,
Macau

Usage
Residential and Retail

Group's Interest
58.8%

Approx. Total Site Area
17,900 sq m

Approx. Total Gross Floor Area
195,600 sq m

Status
Topping-out of superstructure work completed; façade and interior fitting-out works in progress

Expected Date of Completion
Mid-2017

Artist's Impression

Artist's Impression of the main entrance to residential towers

Property Investment

In Hong Kong, gross rental income generated from the Group's property investment portfolio for 2016 fell to HK$341 million, a decrease of 1.1% over 2015, with the overall occupancy rate for the property investment portfolio remaining high at approximately 95% as of 31 December 2016.

The decrease in rental income in 2016 was mainly due to the unexpected close down of DSC, a furniture chain store and one of the top tenants which occupied units over 7% of total floor area of Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, in August 2015 and subsequent considerable period of time marketing the units which reduced overall rental income in 2016. Encouragingly, the units previously occupied by DSC were approximately 90% re-let by 31 December 2016. Total rental income from Pioneer Centre fell 1.3% to HK$290 million in 2016, with most of retail spaces and offices being let as of 31 December 2016.

In Macau, the Group's share of gross rental income generated from its investment properties rose to HK$58.2 million for the year under review, representing an increase of 16.1% over 2015. The improvement in income was mainly due to an increase in rents from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group rising to HK$53.9 million in 2016 from HK$46.4 million in 2015.

Property Management

The Group offers a full range of high quality property management services to our clients. Our client base includes not only self-developed luxury residential buildings, serviced apartments and medium scale commercial buildings, but also public housing estates. As at 31 December 2016, the total area of properties under management was maintained at approximately 1,185,000 sq m (2015: 1,169,000 sq m).

The Macau Square (Macau)

Pioneer Centre (Hong Kong)

Key Risk and Uncertainties

The Group faces various risks including those specific to the property development business as well as those that are common to other businesses. The Group's risk management and internal control systems are in place to ensure principal risks as well as significant emerging risks are identified, monitored and managed on a continuous basis. The principal risks and uncertainties set out below may have material impacts on the Group's businesses, operating results, financial position or prospects, but they are by no means exhaustive or comprehensive.

Property Development Risk

Similar to other property developers, the Group is confronted with the risk of deterioration of property market conditions which is subject to the changes in the overall economic environment, political stability, governmental policies, as well as the taxes and stamp duties imposed on the sales of residential properties in the geographical areas of the Group's operations.

The profitability of the Group may also be hindered by rising construction costs and sub-contracting charges and keen competition from other property developers. A significant adverse financial impact may arise if any of our construction projects is not able to be completed on schedule or within budget. The Group's prospects are also subject to the supply of land affected by land policies in different geographical areas.

Regulatory Risk

The Group operates in highly-regulated markets and industries where changes to the regulatory environment may have significant impacts on our businesses. We have to ensure we can comply with all the regulatory requirements including the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Companies Ordinance as well as legal, tax, environmental and any other statutory requirements for our various kinds of businesses in different jurisdictions.

People Risk

The Group's future development is materially affected by whether it can recruit, retain, develop and motivate competent and qualified staff at various levels. The shortage or loss of key personnel may harm the Group's existing operations and prospects.

Financial Risk

The Group is exposed to interest rate, credit, liquidity, currency and other price risks which arise in the normal course of the Group's businesses. The analysis of these risks is illustrated in the notes to the financial statements in detail.

Business Partner Risk

Some of the Group's businesses are conducted through non wholly-owned companies or joint ventures in which the Group shares control with other business partners. The relevant risks include that these business partners may not continue their relationships with the Group, take actions against the Group's interests, undergo a change of control or not fulfil their obligations under the joint ventures.

Environmental and Social Compliance

Environmental Policies and Performances

The Group is dedicated to high standards of environmental protection. By minimising the impact to our community and conserving resources amongst employees and tenants, we are striving to improve our environmental performance continually. Since 2007, the Group has become a corporate member of WWF-Hong Kong, supporting the Non-Governmental Organisation's works on conservation and education. The Group adopts a holistic and proactive approach towards environmental management, undertaking stringent measures to ensure both new and existing developments comply with the regulatory requirements. We also work and communicate closely with our contractors to minimise generation of effluent and waste. In 2016, we have strictly complied with environmental laws and regulations in Hong Kong.

Compliance with Laws and Regulations

As far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations that has a significant impact on the businesses and operations of the Group during the financial year.

Relationships with Stakeholders

The Group has an integrated human capital strategy to recruit, develop and motivate employees, making sure that employees are provided with competitive remuneration package, appropriate training and development opportunities and their performance goals are aligned with the Group's business objectives. The Group is committed to providing a work environment that is free from all forms of discrimination. In 2016, there were no known reports of any incidence of discrimination by its employees in Hong Kong and overseas. Management and staff at all levels are responsible to ensure all employees are working in compliance with the statutory requirements, arrange adequate resources to fulfil the safety requirements and carry out training and supervision.

The Group is also dedicated to providing high quality properties, products and services to meet our customers' needs and is striving to maintain good relationship and close communication with our business partners, banks, contractors and suppliers so as to achieve this goal for our customers. In addition, the Company has been awarded as a "Caring Company" since 2009 in recognition of our achievement in corporate social responsibility. In 2016, we have donated to domestic charities and our employees have participated in a number of community activities.

Environmental, Social and Governance Reporting

Environmental, social and governance ("ESG") issues are fundamental to the Group's sustainability. Therefore, the Group has included ESG factors as a strategic consideration in its decision-making and seeks for continuous improvement in its ESG performance. In accordance with the requirement set out in Appendix 27 to the Listing Rules, a separate ESG report will be published on the Company's website and the website of Hong Kong Exchanges and Clearing Limited in due course.

Human Resources

As of 31 December 2016, the Group had a total of 941 employees (2015: 890 employees), of which 539 were Hong Kong staff, 190 were Mainland China staff and 212 were staff in other regions. The increase in headcount was mainly to match business growth. During the year, total staff costs increased to HK$242 million (2015: HK$233 million) due to salary revisions in July 2016 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on the performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

The Group believes that the quality of its human resources is critical for it to maintain a strong competitive edge. The Group has conducted a range of training programmes through various institutions to strengthen employees' all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

In addition, the Group established a recreation club and held an annual dinner and a Christmas party for employees during the year to promote team spirit and loyalty and to promote communication between departments.

Financial Review

Financial Resources and Bank Borrowings

The Group had total bank borrowings of HK$10,070 million as at 31 December 2016 (31 December 2015: HK$8,707 million), with HK$2,544 million being repayable within one year and HK$7,526 million being repayable after one year. Taking into account cash and cash equivalents of HK$795 million, the Group's net bank borrowings position was HK$9,275 million as at 31 December 2016 (31 December 2015: HK$7,531 million). As at 31 December 2016, total loans from the ultimate holding company and a fellow subsidiary amounted to HK$2,349 million (31 December 2015: HK$6,439 million).

The Group's gearing ratio (calculated on the basis of net bank borrowings and total loans from ultimate holding company and a fellow subsidiary over equity attributable to shareholders of the Company) reduced to 49.3% as at 31 December 2016 (31 December 2015: 61.0%).

In January 2016, the Group acquired a subsidiary holding a land located in Tseung Kwan O in Hong Kong from the ultimate holding company at a total consideration of HK$184 million. In January 2017, the Group accepted the terms of an offer from the government including the land premium for the proposed land exchange.

During the year, the Group continued to launch the sale of remaining units of property projects in Hong Kong, which contributed further cash inflows of exceeding HK$2 billion to the Group. Furthermore, the Group has recorded approximately HK$2.8 billion cash inflows mainly from sales/presales of various development projects in Mainland China.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK$1,788 million for construction costs during the year.

All the Group's borrowings are arranged on a floating rate basis. The Group will closely monitor and manage its exposure to interest rate fluctuations and will consider engaging in relevant hedging arrangements when considered appropriate.

With the investments in Mainland China, the Group is exposed to exchange fluctuations in Renminbi ("RMB"). Using external borrowings in RMB together with revenue and cash generated from the development projects in Mainland China, serves as a natural hedge against the exchange rate risk of RMB.

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 31 December 2016, the Group did not have any outstanding financial instruments entered into for hedging purposes. Nevertheless, the Group is closely monitoring its overall foreign exchange exposure and interest rate exposure and will adopt a proactive but prudent approach to minimise the relevant exposures when necessary.

With the financing facilities in place, recurrent rental income from investment properties, cash inflows from presale/sale of the Group's development projects and the financial support from the ultimate holding company, the Group has sufficient financial resources to satisfy its commitments and future funding requirements.

Capital Commitments

As at 31 December 2016, the Group had commitments in connection with the Group's investment properties amounting to HK$30 million.

Pledge of Assets

As at 31 December 2016, properties having a value of HK$18,679 million and bank deposits of HK$15 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

Contingent Liabilities

The Group has given several guarantees in respect of banking facilities granted to a joint venture in Mainland China. Guarantees have been provided to a joint venture amounting to HK$1,012 million, representing a 50% proportional guarantee in respect of HK$2,024 million term loan facilities. The facilities were utilised to the extent of HK$1,755 million as at 31 December 2016.

Profile of Directors

Board of Directors

Executive Directors

OR Wai Sheun, aged 65, is the *Chairman* of the Company. He has been an *Executive Director* since January 2002 and is responsible for the development of corporate strategies, corporate planning and general management of the Company. He is also the chairman of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company. Mr Or is the chairman of both Polytec Holdings International Limited, the sole shareholder of Intellinsight Holdings Limited ("Intellinsight"), and Intellinsight, the substantial shareholder of the Company, and a director of certain subsidiaries of the Group. Mr Or has over 35 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and Mainland China. He is the husband of Ms Ng Chi Man, the father of Mr Or Pui Kwan and the father-in-law of Mr Lam Yung Hei.

LAI Ka Fai, aged 52, has been an *Executive Director* of the Company since January 2002. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Lai is also a non-executive director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company, and a director of Intellinsight Holdings Limited, the substantial shareholder of the Company, and certain subsidiaries of the Group. He has over 25 years of experience in finance, accounting, financial and operational management and corporate planning. Mr Lai graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

OR Pui Kwan, aged 38, has been an *Executive Director* of the Company since September 2005. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Or joined the Company in May 2003 and is also a director of certain subsidiaries of the Group. He has attained solid working experience in various companies engaged in property development, securities investment, information technology, product research and development. Mr Or holds a Bachelor of Combined Science degree from the University College London. He is the son of Mr Or Wai Sheun and Ms Ng Chi Man and the brother-in-law of Mr Lam Yung Hei.

LAM Yung Hei, aged 37, has been an *Executive Director* of the Company since July 2016. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. He is also a director of a subsidiary of the Group. Mr Lam has over 10 years of experience in Hong Kong property development, merger and acquisition and information technology. He holds a Master of Commerce (Information Systems and Management) degree and a Bachelor of Science (Computer Science) degree both from University of New South Wales, Sydney. Mr Lam is the son-in-law of Mr Or Wai Sheun and Ms Ng Chi Man and the brother-in-law of Mr Or Pui Kwan.

Non-executive Directors

NG Chi Man, aged 64, has been an Executive Director of the Company since January 2002 and re-designated as a *Non-executive Director* of the Company with effect from 1 April 2013. Ms Ng is also a director of Polytec Holdings International Limited, the sole shareholder of Intellinsight Holdings Limited ("Intellinsight"), Intellinsight, the substantial shareholder of the Company, and certain subsidiaries of the Group. Ms Ng has over 35 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and Mainland China. She is the wife of Mr Or Wai Sheun, the mother of Mr Or Pui Kwan and the mother-in-law of Mr Lam Yung Hei.

YEUNG Kwok Kwong, aged 58, has been a *Non-executive Director* of the Company since January 2002. He is also the managing director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company, and a director of certain subsidiaries of the Group. Mr Yeung has over 30 years of experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Independent Non-executive Directors

LI Kwok Sing, Aubrey, aged 67, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Li is the chairman of IAM Holdings (Hong Kong) Limited (formerly known as MCL Partners Limited), a Hong Kong based investment firm, and has over 40 years of experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of Café de Coral Holdings Limited, China Everbright International Limited, Kunlun Energy Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited (each of them is listed on the Stock Exchange of Hong Kong). Mr Li holds a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

LOK Kung Chin, Hardy, aged 67, has been an *Independent Non-executive Director* of the Company since January 2002. He is the managing director of The Sun Company, Limited and has over 40 years of experience in building and engineering construction work. Mr Lok graduated in Civil Engineering from the University of Manchester Institute of Science & Technology. He is a member of both the Institution of Civil Engineers and the Hong Kong Institution of Engineers, and a fellow member of the Hong Kong Institute of Construction Managers.

SETO Gin Chung, John, aged 68, has been an *Independent Non-executive Director* of the Company since January 2002. He is a director of Pacific Eagle Asset Management Limited. He is also an independent non-executive director of China Everbright Limited and an independent non-executive director of Hop Hing Group Holdings Limited ("Hop Hing Group") (both companies are listed on the Stock Exchange of Hong Kong). He ceased to act as the vice chairman and has been the chairman of the board of Hop Hing Group on 25 March 2016. Mr Seto was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003 and was the chief executive officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a council member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. Mr Seto holds a Master of Business Administration degree from New York University and has over 40 years of experience in the securities and futures industry.

David John SHAW, aged 70, has been an *Independent Non-executive Director* of the Company since June 2007. Mr Shaw acted as Adviser to the Board of HSBC Holdings plc from June 1998 until 30 September 2013; he retired from the HSBC in September 2015. He is also an independent non-executive director of Shui On Land Limited (listed on the Stock Exchange of Hong Kong). Mr Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 to 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University.

Senior management of the Group is the Executive Directors of the Company.

Corporate Governance Report

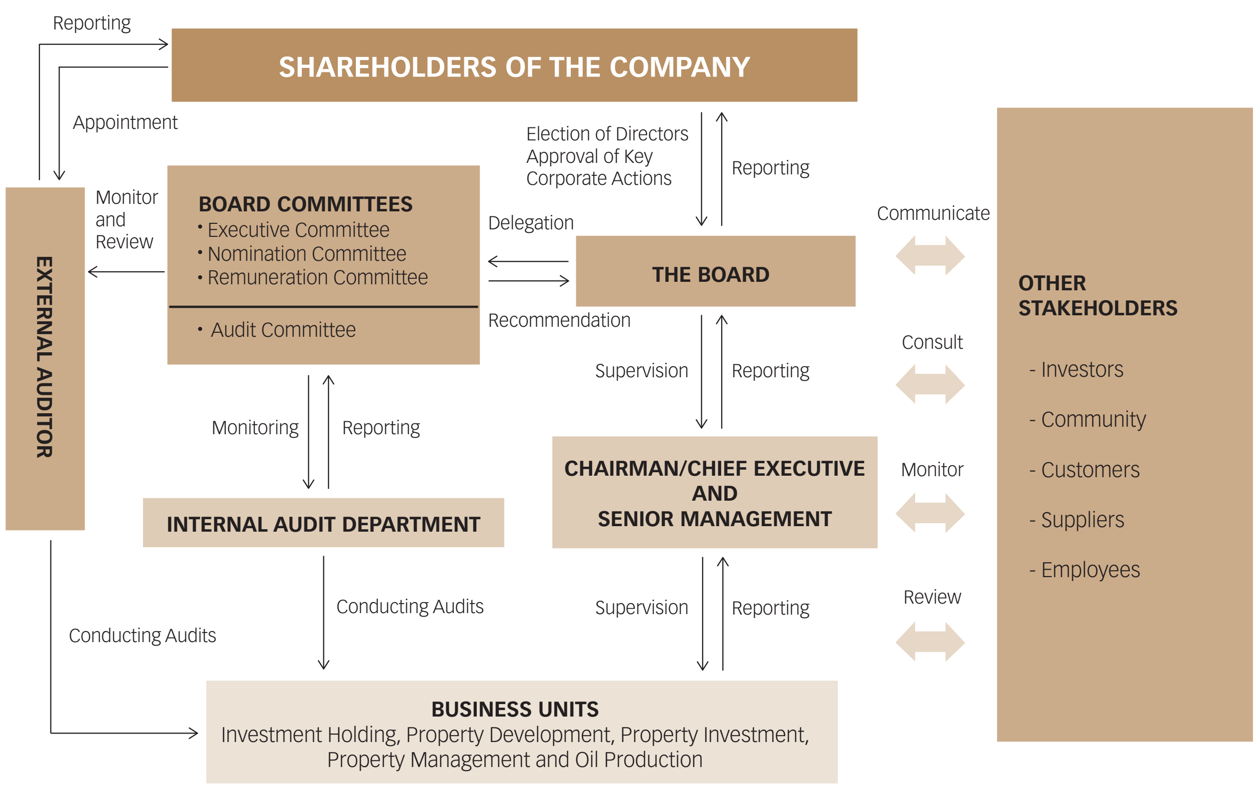
Corporate Governance Practices

The Board of Directors of the Company (the "Board") is accountable to the Company's shareholders for good corporate governance. Accordingly, the Board has considered carefully the requirements of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and, as described below, has taken actions to further enhance corporate transparency and accountability.

We believe good corporate governance is one of the critical factors for achieving sustainable long-term success. The corporate governance principles of the Company emphasise the importance of a quality Board and accountability to shareholders. We will regularly review our corporate governance practices to ensure and maintain the long-term health of the Company.

Throughout the year ended 31 December 2016, the Company has complied with the code provisions of the CG Code ("Code Provision"), with the exception of Code Provisions A.2.1 (which recommends the roles of the chairman and chief executive should be separate) and A.6.7 (which recommends all non-executive directors should attend general meetings) as explained below:

Corporate Governance Structure



Board of Directors

As at 31 December 2016, the Board comprises ten members: four Executive Directors, being Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Lam Yung Hei; two Non-executive Directors, being Ms Ng Chi Man and Mr Yeung Kwok Kwong; and four Independent Non-executive Directors, being Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw. More than one-third of the Board comprises Independent Non-executive Directors. Their biographical details which include relationships among members of the Board are set out on pages 31 and 32 of this annual report. In accordance with the Listing Rules, every Independent Non-executive Director has provided an annual confirmation of his independence to the Company. The Company considers that they satisfy the independence requirements.

There was a change in the composition of the Board during the year. Mr Lam Yung Hei has been appointed as an Executive Director of the Company with effect from 1 July 2016.

The Board is governed by the Hong Kong Companies Ordinance (Chapter 622) (the "Companies Ordinance"), the Listing Rules and the Articles of Association of the Company. The role of the Board is to provide strong guidance and oversight to management in formulation of the overall strategic direction, monitor the performance of management, and assure the best interests of the Company are being served. The day-to-day operational duties of the Board are delegated to management to carry out but the Board takes ultimate responsibility.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors of the Company is provided by the Articles of Association of the Company and is currently in force and was in force throughout the year. The Company has arranged insurance cover in respect of legal action against its Directors. The insurance coverage is reviewed at least annually to ensure that the Directors and officers are adequately protected against potential liabilities.

Chairman of the Board and Chief Executive

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. He is also responsible for leading the Board. Directors with different views are encouraged to voice their concerns. This combining of the roles enables the Company to make prompt and effective decisions. The Board will reassess the applicability of Code Provision A.2.1 if the existing approach cannot provide an optimal result given the particular structure of the Company.

Selection, Appointment and Re-election of Directors

The Board shall have power to appoint any person as a Director either to fill a vacancy or for expansion of the Board. The Company has set up a Nomination Committee for formulating nomination policy for consideration of the Board and making recommendations to the Board on the selection, appointment and re-appointment of Directors.

Every existing Non-executive Director was provided with a letter of appointment setting out his/her terms of appointment. In accordance with the Articles of Association of the Company, any Director newly appointed shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election. Other existing Directors shall be elected for a term of not more than three years since last election or re-election. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company. The Company has also complied with the requirement of the CG Code on considering the independence of an Independent Non-executive Director who has served more than nine years for his further appointment. Mr Seto Gin Chung, John and Mr David John Shaw, who have served on the Board for more than nine years, were re-elected as Independent Non-executive Directors at the 2016 Annual General Meeting ("2016 AGM") by passing separate resolutions at the 2016 AGM. The Board's views on Mr Seto's and Mr Shaw's independent status were set out in the 2016 AGM circular. The re-election of Mr Li Kwok Sing, Aubrey, Independent Non-executive Director who has served on the Board for more than nine years will be considered by vote on a separate resolution in the forthcoming 2017 Annual General Meeting.

Board Diversity

With a view to enhance the capability of decision making and effectiveness in dealing with organisational changes, the Company adopted a Board Diversity Policy which sets out the approach to achieve diversity. The Company has considered the diversity of the Board from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Directors and will consider these factors as measurable objectives when deciding on new appointments to the Board. The current Board is considered well-balanced and of a diverse mix appropriate for the development of the Company. The Nomination Committee monitors the implementation of the Board Diversity Policy and the progress on achieving those measurable objectives.

Operation of the Board

The Board is committed to ensuring appropriate corporate governance practices are in place. In ensuring proper ethical and responsible decision making, the Board has established a series of mechanisms for formal review of particular aspects of the Company's affairs. Important decisions, including those which may be expected to affect the long-term shareholder interests, are made by the Board and applicable Board committees. Matters relating to remuneration of Directors and senior management, financial reporting, risk management and internal control are regularly reviewed by applicable Board committees (comprised of a substantial majority of independent Directors) which make recommendations to the Board.

The Board has formalised the matters reserved to the Board and has reviewed those arrangements periodically to ensure that they remain appropriate to the Company's needs.

The Board meets regularly. Four physical meetings were held during the year. Each Director was provided with the notice of meeting of not less than fourteen days and related Board papers and explanatory material for preview at least three days before the meeting. Draft minutes were sent out to Directors who were eligible to be counted in the quorum of a meeting for review prior to signing off by the Chairman. Copies of the signed minutes had been sent to all Directors for their records.

Directors have access to the Company Secretary and through him to such legal advice they may require. The Company Secretary keeps all the minutes of the Board and its committees meetings.

Board Committees

There are four Board committees. Each of them adopts formal terms of reference, which has included those specific duties in line with Code Provision D.3.1 (Executive Committee), Code Provision C.3.3 (Audit Committee), Code Provision A.5.2 (Nomination Committee) and Code Provision B.1.2 (Remuneration Committee) under the CG Code. The terms of reference of each Board committee is available from the websites of the Company (www.kdc.com.hk) and Hong Kong Exchanges and Clearing Limited (except the one for the Executive Committee) or the Company Secretary upon request.

Executive Committee	
Members:	Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan, Mr Lam Yung Hei and Mr Yeung Kwok Kwong
Key Responsibility:	Exercise all general powers of the Board, save and except for reserved matters

Audit Committee	
Members:	Mr Li Kwok Sing, Aubrey# (Chairman), Mr Lok Kung Chin, Hardy#, Mr Seto Gin Chung, John# and Mr Yeung Kwok Kwong
Key Responsibility:	Assist the Board in considering how it will apply the financial reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's external auditor

Nomination Committee	
Members:	Mr Or Wai Sheun (Chairman), Mr Lok Kung Chin, Hardy# and Mr David John Shaw#
Key Responsibility:	Assist the Board in reviewing the composition of the Board and make recommendations on the appointment and re-appointment of Directors

Remuneration Committee	
Members:	Mr Seto Gin Chung, John# (Chairman), Mr Lai Ka Fai, Mr Li Kwok Sing, Aubrey# and Mr Lok Kung Chin, Hardy#
Key Responsibility:	Assist the Board in providing appropriate input into the formulation of remuneration policy and reviewing the implementation of the remuneration policy

Independent Non-executive Director

Executive Committee

The Executive Committee comprises all Executive Directors and a Non-executive Director. The committee has been delegated powers to exercise all the general powers save and except for the matters reserved to the Board. The committee meets frequently to manage the Company's business and review corporate policies and strategies.

With the requirement on the CG Code in respect of the responsibilities for performing the corporate governance duties, the Board has delegated its following responsibilities to the Executive Committee:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code contained in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report of the Company.

During the year, the following corporate governance matters were considered by the Executive Committee:

– performed reviews of the inside information policy and procedures;

– performed reviews of the risk management and internal control systems;

– reviewed and monitored the Company's policies on compliance with legal and regulatory requirements;

– reviewed the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report; and

– performed reviews of the Environmental, Social and Governance Report.

Audit Committee

The Audit Committee meets at least two times per annum. Its responsibilities include reviewing, assessing and making recommendations to the Board on financial reporting, auditing, risk management and internal control matters and discussing with the external auditor and management issues arising from the annual audit and/or interim review of financial statements.

Three out of four Audit Committee members are Independent Non-executive Directors. The chairman of the committee possesses the relevant financial management expertise or experience. The committee members held three meetings and met the external auditor three times during 2016. At the meetings held during the year, the work performed by the Audit Committee included:

– performed reviews of the half yearly and annual results;

– performed reviews of financial and accounting policies and practices of the Group;

Board Committees *(Continued)*

Audit Committee *(Continued)*

– performed reviews of the relationships with the external auditor, including remuneration, independence, objectivity, effectiveness of the audit process and non-audit services;

– performed reviews of the effectiveness of the risk management and internal control systems including risk management of investment activities, the internal audit plan, the adequacy of resources of Internal Audit Department ("IAD") and its Charter; and

– monitored the whistleblowing policy and system for employees and independent third parties who deal with the Company to raise concerns about any suspected impropriety, misconduct or malpractice within the Group.

Nomination Committee

The Nomination Committee comprises three members, two of whom are Independent Non-executive Directors and the chairman of the committee is the Chairman of the Board. The committee meets at least once per annum. Its responsibilities include reviewing the composition of the Board, identifying suitable Board members, assessing the independence of the independent Directors and making recommendations to the Board on appointments and re-appointments of directors. The committee also developed selection procedures for candidates and will consider the suitability of a candidate by using various criteria including the perceived needs and the extent of interplay within the Board for particular skills, backgrounds and business experience; the nominee's reputation, character and integrity; the nominee's background with regard to executive compensation; and independence requirements and legal consideration.

The committee met twice during 2016 and the work performed by the Nomination Committee included:

– performed reviews of the structure, size and composition of the Board;

– performed an assessment of the independence of independent Directors;

– performed a review of the nomination policy; and

– made recommendations to the Board on the appointment of a new Executive Director, re-appointment of Directors and succession planning for Directors.

Remuneration Committee

The Remuneration Committee comprises four members, three of whom are Independent Non-executive Directors. The committee meets at least once per annum. In discharging their duties, they are required to review, assess and make recommendations to the Board on the remuneration policy and structure for all Directors and senior management and to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The committee met three times during 2016. At the meetings held during the year, the work performed by the Remuneration Committee included:

– performed reviews of the remuneration policy, organisational structure and human resources deployment;

– performed an annual review of the remuneration of Executive Directors and senior management;

– performed a review of the directors' fees proposal submitted by management; and

– performed a review of the proposed remuneration package for a new Executive Director appointed with effect from 1 July 2016.

Time Commitment

The Board has regularly reviewed the contribution required from the Directors and is satisfied that all of them have committed sufficient time during 2016 for the fulfilment of their duties as Directors of the Company. The number of Board, Board committees and general meetings eligible for attendance and attended by each of the Directors during the year is set out below:

	Number of meetings attended/Number of meetings held in 2016				
Board Members	**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**2016 AGM**
Executive Directors					
Mr Or Wai Sheun *(Chairman)*	4/4	–	2/2	–	1/1
Mr Lai Ka Fai	4/4	–	–	3/3	1/1
Mr Or Pui Kwan*	4/4	–	–	–	1/1
Mr Lam Yung Hei*※	2/2	–	–	–	–
Non-executive Directors					
Ms Ng Chi Man*	4/4	–	–	–	1/1
Mr Yeung Kwok Kwong	4/4	3/3	–	–	1/1
Independent Non-executive Directors					
Mr Li Kwok Sing, Aubrey	4/4	3/3	–	3/3	1/1
Mr Lok Kung Chin, Hardy	4/4	3/3	2/2	3/3	1/1
Mr Seto Gin Chung, John	4/4	3/3	–	3/3	1/1
Mr David John Shaw	4/4	–	2/2	–	0/1#
Total Meetings Held	4	3	2	3	1
Average Attendance Rate	100%	100%	100%	100%	89%

* Family members of Mr Or Wai Sheun.

※ Mr Lam Yung Hei has been appointed as an Executive Director of the Company since 1 July 2016.

\# Mr David John Shaw was unable to attend the 2016 AGM as he was overseas at the time. This explained for the deviation of Code Provision A.6.7 which recommends all non-executive directors attend general meetings.

During 2016, independent Directors had also played vital monitoring roles in corporate transactions including provide advice on formulating the approval procedures in the transactions that may constitute discloseable transaction under the Listing Rules.

Further details of the above transaction are set out in the section headed "Directors' Interest in Transactions, Arrangement or Contracts and Connected Transactions" of the Report of Directors.

The Board considers that independent Directors contributed significantly to the deliberations of the Board by virtue of independent judgement, expertise and experience.

Board Committees *(Continued)*

Training and Support for Directors

The Company provides briefings and organises in-house training to develop and refresh the Directors' knowledge and skills on a regular basis. To ensure Directors' compliance with the Listing Rules and strengthen the Directors' awareness of good corporate governance, the Company continuously updates Directors on the latest developments of the Listing Rules and other applicable regulatory requirements by issuing to them circulars, guidance notes and reading materials. During the year, the Company has organised an in-house training programme for the Directors.

In addition, each newly appointed Director is provided with a necessary induction and information to ensure that he/she has a proper understanding of the Company's businesses and operations as well as his/her responsibilities under relevant laws, rules and regulations.

During the year 2016, the Directors participated in the following training as per their records provided to the Company:

Directors	Type of training (Notes)
Executive Directors	
Or Wai Sheun *(Chairman)*	B
Lai Ka Fai	A, B
Or Pui Kwan	A, B
Lam Yung Hei	A, B
Non-executive Directors	
Ng Chi Man	B
Yeung Kwok Kwong	A, B
Independent Non-executive Directors	
Li Kwok Sing, Aubrey	A, B
Lok Kung Chin, Hardy	A, B
Seto Gin Chung, John	A, B
David John Shaw	B

Notes:

A: attending in-house training and/or seminars and/or conferences and/or forums

B: reading newspapers, journals, newsletters and updates relating to the economy, general business, real estate, corporate governance or director duties and responsibilities, etc.

Company Secretary's Training

For the year under review, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than fifteen hours of relevant professional training to update his skills and knowledge.

Promote Ethical Decision Making

Each Director and employee is expected to adhere to high standard of ethical conduct and to be guided by two main principles: no insider dealing and avoid conflict of interests.

Securities Trading Policy

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 to the Listing Rules) as a code of conduct regarding directors' securities transactions (the "Model Code"). All Directors confirmed in writing that they have complied with the Model Code throughout the year. The Company has also established written guidelines on employees' securities transactions. Relevant employees are required to obtain written preclearance before initiating a securities transaction during the black-out period.

Act in the best interests of the Company

In connection with the actual or potential conflict of interests, each Director is required to disclose to the Board the existence of his/her financial interest and all material facts before a vote on the transaction. A Director having a material interest in the transaction shall not vote on that matter (or be counted in the quorum of that meeting) in accordance with the Company's Articles of Association. Each Director is also required to disclose to the Board if he/she has any business or interest in a business which competes with the business of the Company.

Polytec Holdings International Limited, a company ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun is the founder and the discretionary objects of the trust include his family members, is engaged in the property investment and development business in Hong Kong, Macau and Mainland China. A right of first refusal in respect of properties or property projects that will be made available to it to acquire or participate in development in these regions has been granted in favour of the Group.

Remuneration Review

The Board is ultimately responsible for the Company's remuneration policy. The Remuneration Committee has been delegated powers to recommend the remuneration policy and structure of all Directors and senior management whilst ensuring no Director is involved in deciding his/her own remuneration.

In determining remuneration packages of Executive Directors and senior management, the committee is required to follow the remuneration policy of the Company that, among others, the remuneration should reflect performance and achievements with a view to attracting, motivating and retaining high performing individuals.

The Non-executive Directors shall be entitled to receive directors' fees as shall from time to time be determined by the Company in general meeting or, if authorised by shareholders, by the Board. The directors' fees for the year were determined after reviewing the pay levels of their peers in corporations of similar size and industry and having taken into account the prevailing market practice, workload, scale and complexity of the Company's business and the responsibility involved.

The emoluments of Directors and management for the year are set out in note 5 to the financial statements.

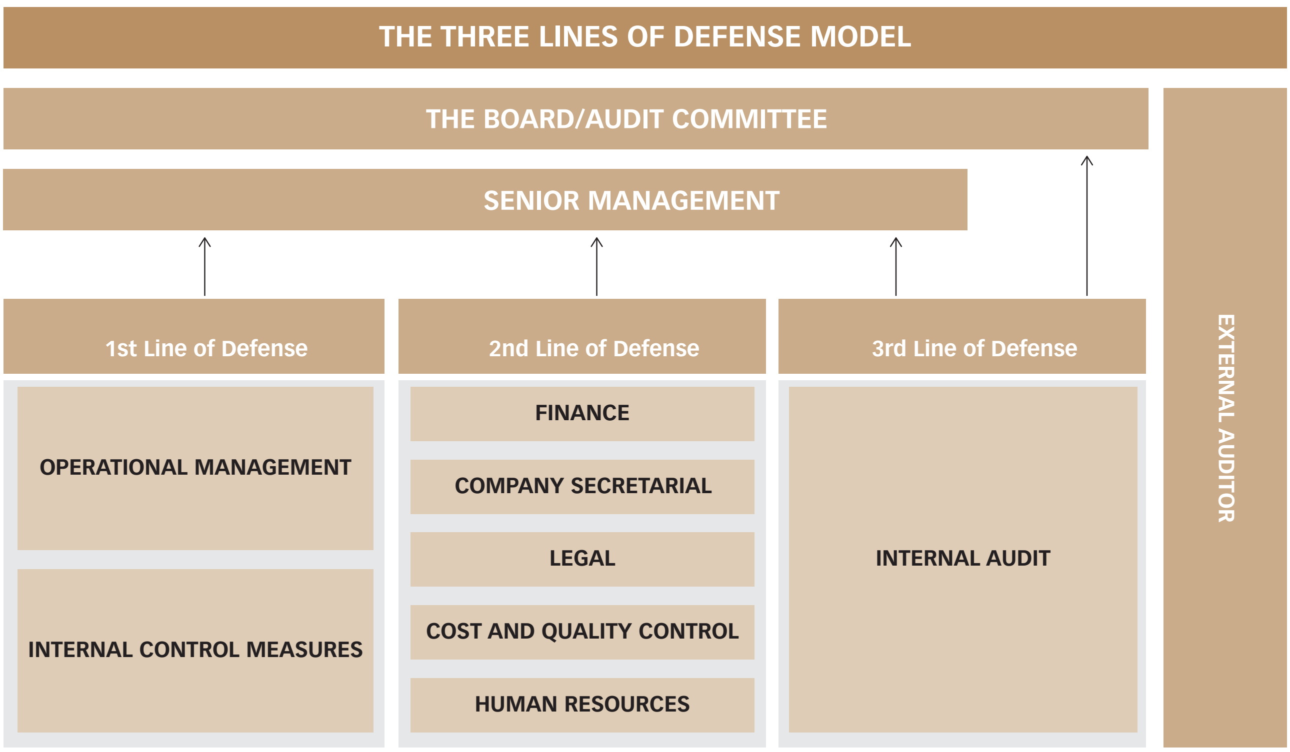
Accountability and Audit

The Board leads and maintains effective controls over the Group's activities, with executive responsibility for the running of the Group's business being delegated to management. The management provides all members of the Board with monthly updates in order to give a balanced and understandable assessment of the Group's performance, position and prospects to enable them to discharge their duties.

Risk Management and Internal Control

The Board acknowledges its responsibility to maintain the Group's risk management and internal control systems and review their effectiveness on an ongoing basis. The Board has delegated part of this responsibility to the Audit Committee.

The Group's risk management structure meets with the best practice model known as "Three Lines of Defense Model" with the first line of defense being operational management and internal control measures, the second line of defense being finance, company secretarial, legal, cost and quality control and human resources functions, and the third line of defense being internal audit.



The Group's risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage rather than completely eliminate the risks of failure in operational systems. The systems play a key role in the management of risks that are significant to the achievement of corporate objectives, ensuring good corporate practice, safeguarding the shareholders' investments and the Group's assets. Emerging risks that may lead to significant negative impacts are identified and monitored on an ongoing basis. The systems comprise the Group's policies and procedures, and standards to ensure effective management, including a well-defined organisational structure with specified authority limits and areas of responsibility, basis for review of financial performance, application of financial reporting standards, maintenance of proper accounting records, assurance of reliable financial information, and compliance with relevant laws and regulations.

Each of the Board and management has a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated. Supported by the Audit Committee, review of the effectiveness of the risk management and internal control systems is conducted at least annually. The review assesses all material controls, including financial, operational and compliance controls. The assessment considers the changes in nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment. It covers the regular reports provided by management on significant issues identified during their daily operation, together with the action plans to resolve material internal control defects, if any. Internal and external auditors also report directly to the Audit Committee regularly on any risks and control issues identified in the course of their audits.

The Board believes that the quality of corporate governance is influenced by the corporate culture. Therefore, the Group is determined to foster and maintain high standards of professional conduct and business ethics. The code of conduct, which is posted on the Group's intranet, had been provided to all employees to inform them of the Group's expectations and put them under special obligations in maintaining the highest standard of honesty and trustworthiness in their jobs. The whistleblowing policy, which is posted on the Company's website and the Group's intranet, has established an effective channel allowing employees to communicate their concerns and findings upwards to management. The Group aims to build risk awareness and control responsibility into the corporate culture and regards them as part of the risk management and internal control systems. In addition, the Group has applied relevant controls on handling of inside information by relevant employees, including controls over the dissemination of such information and their dealings in the Group's shares.

Internal Audit

The IAD reports to the Chairman and the Audit Committee and the IAD is responsible for assessing the effectiveness of the systems of risk management and internal controls of all major projects and activities of the Group with the aim to control and mitigate risks, and ensure operational effectiveness and efficiency.

The IAD adopts a risk-based approach in conducting internal reviews, including financial, operational, compliance and risk management control functions, and monitors the operational compliance with the Group's policies and procedures. The internal audit plan and reporting documents of the Group for the year ended 31 December 2016 were prepared by the IAD, and issued to the Audit Committee and the Board for review. The IAD monitors the issues raised to ensure they are addressed and managed properly by management.

During the year, the Audit Committee had three meetings with the IAD to discuss the role, objectives, scope and job progress of internal audit functions as well as risk management and internal control issues.

The Board, through the Audit Committee and the IAD, reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, and their training programmes and budget at the Board meeting held in March 2017. Based on the results of the review for the year ended 31 December 2016, the Board considered that the risk management and internal control systems were effective and adequate.

Accountability and Audit *(Continued)*

Financial Reporting

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing financial statements for each financial year/period which give a true and fair view of the state of affairs of the Group as at the end of the financial year/period and of the profit and loss for the year/period. In preparing the financial statements, the Directors have adopted all applicable Hong Kong Financial Reporting Standards in all material respects, selected appropriate accounting policies and then applied them consistently, made judgements and estimates that are fair and reasonable. The Directors use the going concern basis in preparing the financial statements unless this is inappropriate.

The Company recognises that a clear, balanced and timely presentation of financial report is crucial in maintaining the confidence of stakeholders. Reasonable disclosure of Company's financial position and prospects are provided in the report. Annual and interim results are published within three and two months after the end of the relevant financial year/period respectively.

A statement of the Company's external auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 57 to 63 of the Annual Report.

Inside Information

In view of the requirements under Part XIVA of the Securities and Futures Ordinance and the Listing Rules, the Company developed the Inside Information Policy and guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing instruction are in place for employees to follow. The Inside Information Policy (for all staff) has been communicated to the staff through the Group's intranet. Senior officers of the Group have been identified and authorised to handle and respond the external enquiries in relation to the published announcement(s). The systems and procedures on publication and handling of inside information are monitored and reviewed on a regular basis.

External Auditor

External auditor performed some non-audit services during the year. A breakdown of their remuneration is set out below:

		2016 HK$'000
Audit services		5,518
Non-audit services		1,039
Tax and business advisory services	56	
Other services	983	

During the year, the Audit Committee met with the external auditor three times to discuss matters about their independence to ensure they performed their work objectively, and any issues arising from the audit. The external auditor have confirmed in writing their independence.

Shareholder Relations

The Board has established a Shareholders Communication Policy and is dedicated to maintaining an on-going dialogue with shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. It aims to ensure the shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company so as to enable the shareholders to exercise their rights in an informed manner and to allow the shareholders and investment community to engage actively with the Company. Information is communicated to them mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings, as well as disclosure on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The Company has also taken its own initiative to disclose the price-sensitive information in a timely manner and to comply with the latest statutory requirements under Part XIVA of the Securities and Futures Ordinance.

The general meeting of the Company provides a forum for effective communication with shareholders. The Chairmen of the Board and its committees or, if he/they cannot present, fellow Directors are available to answer questions at the general meetings.

During the year, the Board met and communicated with shareholders at the 2016 AGM and the notice of which was distributed to all shareholders not less than twenty clear business days before the meeting. At the meeting, the Chairmen demanded for a poll and the Company's share registrar was appointed as scrutineer for the vote taking. The external auditor had also attended the 2016 AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report and auditor independence.

The most recent shareholders' meeting was the 2016 AGM held at U Banquet, 6th Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong. The matters resolved at the 2016 AGM and the percentage of votes cast in favour of the resolutions are set out below:

- To receive and consider the audited financial statements together with the reports of the directors and auditor thereon for the year ended 31 December 2015 (100%);
- To declare a final dividend for the year ended 31 December 2015 (100%);
- To re-elect Mr Or Wai Sheun, Mr Seto Gin Chung, John and Mr David John Shaw as Directors and to authorise the Board to fix the directors' remuneration (99.221%, 99.743%, 99.988% and 99.975% respectively);
- To re-appoint KPMG as auditor and authorise the Board to fix the auditor's remuneration (99.965%);
- To grant a general mandate to the directors to allot, issue and deal with additional shares not exceeding 20% of the total number of the issued shares of the Company (96.010%);
- To grant a general mandate to the directors to repurchase shares not exceeding 10% of the total number of the issued shares of the Company (100%); and
- To extend the general mandate to the directors to issue new shares by adding the number of the shares repurchased (96.036%).

The Company's website (www.kdc.com.hk) serves as a communication tool, in which the Company's announcements, circulars to shareholders, notices of general meetings and financial reports are posted on the "Investor Relations" section. Corporate profile and development of corporate governance of the Company are also provided on the Company's website. Information on the website of the Company is updated on a regular basis.

Shareholders can direct their questions about their shareholdings to the Company's share registrar. They can request for publicly available information of the Company from the Company Secretary.

The Company recognises the importance of shareholders' privacy and will not disclose the shareholders' information without their consent unless required by law to do so.

As far as our Directors are aware, the Company has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year 2016.

Shareholders' Rights

Procedures for shareholders to propose a person for election as a director

If a shareholder of the Company who is duly qualified to attend and vote at the general meeting convened to deal with the appointment or election of director(s), intends to propose a person for election as a director of the Company, the shareholder concerned shall lodge a written notice at the Company's registered office for the attention of the Company Secretary stating (i) his/her intention to propose such person for election as a director; and (ii) the biographical details of the nominated candidate. Such written notice should be signed by the shareholder concerned and the person who has been proposed indicating his/her willingness to be elected. The period for lodgment shall commence no earlier than the day after the dispatch of the notice of general meeting appointed for such election of director(s) and end no later than seven days prior to the date of such meeting. Detailed procedures can be found on the Company's website.

Procedures for shareholders to convene an extraordinary general meeting ("EGM")

- Shareholders holding not less than one-twentieth (1/20) of the paid-up capital of the Company can deposit a written requisition to convene an EGM at the registered office of the Company for the attention of the Company Secretary.

- The written requisition must state the objects of the meeting, signed by the relevant shareholders making the request and may consist of several documents in like form, each signed by one or more of the relevant shareholders.

- The requisition will be verified by the Company's share registrar and upon their confirmation that the requisition is in order, the Company Secretary will arrange the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

- If the requisition is verified to be not in order, the relevant shareholders will be advised of the result and accordingly, an EGM will not be convened as requested.

- If the Board does not within twenty-one days from the date of the deposit of the requisition proceed to convene an EGM for a day not more than twenty-eight days after the date on which the notice convening the EGM is given, the relevant shareholders, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

Procedures for shareholders to put forward proposals at general meetings

- Shareholders may propose resolution at general meetings by submitting a written requisition. The number of shareholders shall be (i) not less than one-fortieth (1/40) of the total voting rights of all members or (ii) not less than fifty shareholders holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK$2,000.

- The written requisition must state the proposed resolution, along with a statement of not more than one thousand words with respect to the matter referred to in the resolution or the business to be dealt with at the general meeting. It must also be signed by the relevant shareholders and deposited at the Company's registered office for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than one week in the case of any other requisition.

- The requisition will be verified by the Company's share registrar and upon their confirmation that the requisition is in order, the Company will give notice of the resolution or circulate the statement provided that the relevant shareholders have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

- If the requisition is verified to be not in order or the relevant shareholders have failed to deposit sufficient money to meet the Company's expenses for the said purpose, the relevant shareholders will be advised of the result and accordingly, no action will be taken by the Company in that regard.

Procedures for shareholders to send enquiries to the Board

Shareholders may make enquiries or direct concerns to the Board in writing by addressing to the Company Secretary by mail at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong or by email to enquiry@kdc.com.hk.

Other Information

Corporate Citizenship

The Company is committed to enhancing corporate citizenship and has become a corporate member of WWF-Hong Kong since 2007. We continue to support their conservation and education work.

Besides making charitable donations, we have also taken part in "Earth Hour 2016", "Charity Cookies" and "Dress Casual Day" held by WWF-Hong Kong, Madam Hong's Bakery (established by Ngai Shing Workshop of Fu Hong Society) and The Community Chest respectively.

In addition, the Company was awarded "5 Years Plus Caring Company" Logo by The Hong Kong Council of Social Service in recognition of our achievement in corporate social responsibility.

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2016.

Principal Place of Business

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

Principal Activities and Business Review

The principal activities of the Company are property investment and investment holding. Its subsidiaries are principally engaged in investment holding, property development, property investment, property management and oil production. The principal activities and particulars of its principal subsidiaries are set out in note 28 to the financial statements.

Further discussion and analysis of the above activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622) (the "Companies Ordinance"), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman's Statement", "Review of Operations", "Financial Review" and "Corporate Governance Report" sections of the Annual Report. The aforesaid sections form part of this report.

Dividends

An interim dividend of HK$0.21 per share (2015: HK$0.21 per share) was paid on 13 December 2016. The Directors now recommend that a final dividend of HK0.39 per share (2015: HK$0.37 per share) be paid in respect of the year ended 31 December 2016.

Share Capital

Movements in share capital during the year are set out in note 23(b) to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2016.

Reserves

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity.

Oil Reserves

Except for the production during the year under review, there has been no material change in the oil reserves of the Group.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in notes 20 to 22 to the financial statements.

Finance Costs Capitalised

The amount of finance costs capitalised by the Group during the year is set out in note 4(b) to the financial statements.

Donations

Charitable donations made by the Group during the year amounted to HK$1,705,000 (2015: HK$1,938,000).

Properties

Particulars of major properties and property interests of the Group are shown on pages 133 to 136 of the Annual Report.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 and 7 of the Annual Report.

Management Contracts

Save for the directors' service contracts, no other contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

Directors

The Directors during the year and up to the date of this report are:

Mr Or Wai Sheun, *Chairman and Executive Director*
Mr Lai Ka Fai, *Executive Director*
Mr Or Pui Kwan, *Executive Director*
Mr Lam Yung Hei, *Executive Director*
(appointed with effect from 1 July 2016)
Ms Ng Chi Man, *Non-executive Director*
Mr Yeung Kwok Kwong, *Non-executive Director*
Mr Li Kwok Sing, Aubrey, *Independent Non-executive Director*
Mr Lok Kung Chin, Hardy, *Independent Non-executive Director*
Mr Seto Gin Chung, John, *Independent Non-executive Director*
Mr David John Shaw, *Independent Non-executive Director*

In accordance with Article 105 of the Articles of Association of the Company, Mr Lai Ka Fai, Ms Ng Chi Man and Mr Li Kwok Sing, Aubrey will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr Lam Yung Hei was appointed as an Executive Director of the Company with effect from 1 July 2016. In accordance with Article 96 of the Articles of Association of the Company, he shall hold office until the forthcoming Annual General Meeting. Mr Lam, being eligible, offers himself for re-election.

Particulars of the Directors' emoluments, disclosed pursuant to Section 383 of the Companies Ordinance and Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in note 5(a) to the financial statements.

Brief biographical particulars of all Directors are given on pages 31 and 32 of the Annual Report.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at www.kdc.com.hk.

Directors' Service Contracts

None of the Directors seeking re-election at the forthcoming Annual General Meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests and Short Positions

As at 31 December 2016, the interests of the Directors in the shares of the Company and Polytec Asset Holdings Limited ("Polytec Asset") as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

1. Long positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 1)	Note(s)
Or Wai Sheun	Founder and beneficiary of a trust	830,770,124		2
	Corporate	277,500		3
		831,047,624	72.22%	
Ng Chi Man	Beneficiary of a trust	830,770,124	72.20%	2
Or Pui Kwan	Beneficiary of a trust	830,770,124		2
	Personal	43,500		
		830,813,624	72.20%	
Lam Yung Hei	Family	830,770,124	72.20%	2 & 4
Lok Kung Chin, Hardy	Founder and beneficiary of trusts	1,425,000	0.12%	5
Lai Ka Fai	Personal	751,000	0.07%	
David John Shaw	Personal	133,500		
	Family	67,000		6
		200,500	0.02%	
Yeung Kwok Kwong	Personal	180,000	0.02%	

Directors' Interests and Short Positions *(Continued)*

2. Long positions in the shares of Polytec Asset

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 7)	Note(s)
Or Wai Sheun	Founder and beneficiary of a trust	3,260,004,812	73.44%	8
Ng Chi Man	Beneficiary of a trust	3,260,004,812	73.44%	8
Or Pui Kwan	Beneficiary of a trust	3,260,004,812		8
	Personal	7,000,000		
		3,267,004,812	73.60%	
Lam Yung Hei	Family	3,260,004,812		8 & 9
	Family	7,000,000		10
		3,267,004,812	73.60%	
Yeung Kwok Kwong	Personal	2,000,000	0.05%	
Lai Ka Fai	Personal	430,000	0.01%	

Notes:

(1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued ordinary shares of the Company as at 31 December 2016.

(2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of Polytec Holdings International Limited ("Polytec Holdings") which is wholly-owned by Ors Holdings Limited ("OHL"). OHL is in turn wholly-owned by a discretionary trust, the trustee of which is HSBC International Trustee Limited.

As Mr Or Wai Sheun is the founder of the trust and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (his wife), Mr Or Pui Kwan (his son) and Ms Or Pui Ying, Peranza (his daughter and the spouse of Mr Lam Yung Hei), they are taken to be interested in the same block of shares held by the trust.

(3) Such interest in shares is held by China Dragon Limited which is wholly-owned by Mr Or Wai Sheun.

(4) Mr Lam Yung Hei is deemed to be interested in such shares by virtue of his spouse is one of the discretionary objects of the trust.

(5) Such interest in shares is owned by discretionary trusts of which Mr Lok Kung Chin, Hardy is the founder and a beneficiary respectively.

(6) Such interest in shares is held by the spouse of Mr David John Shaw.

(7) The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at 31 December 2016. Polytec Asset is an associated corporation of the Company.

(8) The four references to 3,260,004,812 shares in Polytec Asset relate to the same block of shares held by Marble King International Limited, a wholly-owned subsidiary of the Company. By virtue of the deemed interest in the shares of the Company as described in note (2) above, Mr Or Wai Sheun, Ms Ng Chi Man, Mr Or Pui Kwan and Ms Or Pui Ying, Peranza are taken to be interested in the shares of Polytec Asset.

(9) Mr Lam Yung Hei is deemed to be interested in such shares in Polytec Asset through the interest of his spouse in the Company.

(10) Such interest in shares of Polytec Asset is held by the spouse of Mr Lam Yung Hei.

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

As at 31 December 2016, shareholders (other than Directors and the chief executive of the Company) who had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are set out below:

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 1)	Note
HSBC International Trustee Limited	Trustee	832,016,474	72.30%	2
Ors Holdings Limited	Corporate	830,770,124	72.19%	3

Notes:

(1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued ordinary shares of the Company as at 31 December 2016.

(2) Based on information available to the Company and subsequent to the recording in the register as required by SFO set out in the table above, there were share movements which were not required to disclose under SFO as at 31 December 2016. HSBC International Trustee Limited was then taken to be interested in 831,617,074 shares of the Company. Such interest included the shares owned by a company as described in note (2) under the section headed "Directors' Interests and Short Positions".

(3) Such interest in shares is held by Intellinsight as described in note (2) under the section headed "Directors' Interests and Short Positions".

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons (other than the Directors or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Interests in Transactions, Arrangement or Contracts and Connected Transactions

On 14 January 2016, the Company entered into an agreement with Polytec Holdings a share purchase agreement pursuant to which, the Company agreed to acquire the entire issued share capital of Fulleagle Limited ("Fulleagle"), a wholly-owned subsidiary of Polytec Holdings, together with the assignment of loan for an aggregate consideration of HK$184,480,555 (the "Acquisition"). Fulleagle held an indirect interest in Junk Bay Town Lot No. 2 and the Extension thereto and Tseung Kwan O Town Lot No. 22 through its wholly-owned subsidiary, Li Profit Limited.

As at 14 January 2016, Polytec Holdings was ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun (the Chairman of the Company) is the founder and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (a Non-executive Director) and Mr Or Pui Kwan (an Executive Director). Polytec Holdings through its wholly-owned subsidiary, Intellinsight, held 72.20% interest of the Company.

Given that Polytec Holdings was indirectly owned by Mr Or Wai Sheun and his family members (of which Ms Ng Chi Man and Mr Or Pui Kwan are also Directors of the Company) as at 14 January 2016, Polytec Holdings was a connected person of the Company. Accordingly, the Acquisition constituted a connected transaction for the Company under the Listing Rules. Details of the transaction were disclosed in the announcement of the Company dated 14 January 2016.

The Company has complied with the disclosure requirements for the above connected transaction in accordance with Chapter 14A of the Listing Rules. Save as disclosed above and the sections headed "Interests in property development" and "Material related party transactions" as set out in notes 14 and 30 to the financial statements, none of the Directors of the Company was materially interested in any transaction, arrangement or contract entered into by the Company, its subsidiaries or holding companies or its fellow subsidiaries which transaction, arrangement or contract subsisted at the end of the year or at any time during the year and which was significant in relation to the business of the Company and its subsidiaries.

Permitted Indemnity Provision

A permitted indemnity provision (as defined in Section 469 of the Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout the year. Details of the Company's permitted indemnity provision are set out in the Corporate Governance Report of the Annual Report.

Changes in Information of Directors

Save for the Directors' emoluments which set out in note 5(a) to the financial statements, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Disclosure pursuant to Rule 13.21 of the Listing Rules

During the year ended 31 December 2016, the Company had no disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

Retirement Schemes

Particulars of the retirement schemes operated by the Group are set out in note 29 to the financial statements.

Arrangement to Purchase Shares and Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements which enabled any Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

Corporate Governance

Principal corporate governance practices of the Company are set out in the Corporate Governance Report on pages 33 to 47 of the Annual Report.

Review of Financial Statements

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditor.

Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

Closure of Register of Members

For the purpose of determining shareholders' eligibility to attend and vote at the 2017 Annual General Meeting, the Register of Members of the Company will be closed from Friday, 2 June 2017 to Wednesday, 7 June 2017, both dates inclusive. During which period, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2017 Annual General Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm on Thursday, 1 June 2017.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Monday, 19 June 2017 to Tuesday, 20 June 2017, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm on Friday, 16 June 2017.

Auditor

The Group's consolidated financial statements for the year ended 31 December 2016 have been audited by KPMG, Certified Public Accountants who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Or Wai Sheun
Chairman

Hong Kong, 22 March 2017

Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of
Kowloon Development Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Kowloon Development Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 64 to 132, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters *(Continued)*

Assessing the net realisable value of properties under development for sale and properties held for sale in Mainland China owned by the Group, a joint venture and associated companies

Refer to accounting policies 1(l)(ii) and (l)(iii) and notes 2(d), 15, 16 and 17 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2016 the Group held a number of residential and commercial property development projects located in cities across Mainland China. In addition, the Group is interested in residential and commercial property development projects in Mainland China through a joint venture and associated companies, which are equity accounted for in the consolidated financial statements. A significant component of the carrying values of the interests in a joint venture and associates is the carrying value of the underlying property development projects owned by these investees. Properties under development for sale and held for sale are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires significant management estimation and judgement, particularly in determining expected future selling prices, future construction costs and the costs necessary to complete the sale of these properties. We identified the assessment of net realisable value of properties under development for sale and held for sale in Mainland China held by the Group and its joint venture and associated companies as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future construction costs and the future selling prices for each property development project, particularly in light of the current economic circumstances in Mainland China whereby local governments are imposing conditions or restrictions on the purchase of residential properties.	Our audit procedures to assess the net realisable value of properties under development for sale and properties held for sale in Mainland China included the following: • obtaining and inspecting management's valuations on which management's assessment of the net realisable value of the properties was based; • discussing with management their valuation methodology and challenging key estimates and assumptions adopted in the valuations, including expected future selling prices and costs to completion, by comparing these with, where available, recently transacted prices for similar properties or the prices of comparable properties located in the nearby vicinity of each development and publicly available construction cost information for properties of a similar nature and location; • conducting site visits to all properties under development for sale to observe the development progress and challenging management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group; • re-performing calculations made by management in arriving at the year end assessments of net realisable value on a sample basis and comparing the estimated future construction costs to complete each development to the Group's updated budgets; • performing a retrospective review for all properties under development for sale completed during the year by comparing the actual construction costs incurred during the year to those included in the prior year's forecasts in order to assess the accuracy of the Group's budgeting process; • performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for these properties to be materially misstated and considering the likelihood of such a movement in those key estimates arising.

Key audit matters *(Continued)*

Assessing potential impairment of oil production and exploitation assets

Refer to accounting policies 1(i) and (k) and notes 2(g), 11 and 13 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2016, the Group held oil production and exploitation assets in Kazakhstan with carrying amounts totalling HK$582 million, which were stated at cost less accumulated amortisation and impairment losses. The related gas flaring permits, which are required to continue normal crude oil production, are valid until the end of June 2017. The recoverable amounts of oil production and exploitation assets were assessed by management based on the present value of estimated future cash flows arising from the continued use of the assets. The assessment of the recoverable amounts is inherently subjective as it involves significant management judgement and estimation, particularly in relation to the estimation of future crude oil prices, future oil production quantities, inflation and the discount rate applied. We identified assessing potential impairment of oil production and exploitation assets as a key audit matter because the valuation of oil production and exploitation assets is complex and the assessment of the recoverable amounts involved significant management judgement, particularly in light of the volatility of crude oil prices, the uncertainty of the renewal of the related gas flaring permits and the current Kazakhstan business environment. Variations in these management judgements could have a material impact on the consolidated financial statements.	Our audit procedures to assess the potential impairment of oil production and exploitation assets included the following: • obtaining and inspecting the impairment assessment prepared by management and comparing the key estimates and assumptions made in prior years with the current year; • with the assistance of our internal asset valuation specialists, discussing with management their valuation methodology and challenging the key estimates and assumptions adopted in the discounted cash flow forecast, in particular in relation to future crude oil prices, production forecasts, future operating and capital expenditure, the discount rate and the inflation rate, by comparing these with publicly available market benchmarks, historical results, economic and industry forecasts and approved business plans and by utilising the industry knowledge and experience of our internal asset valuation specialists; • inspecting the documentation on which management based its assessment of the likelihood of renewal of the related gas flaring permits in the future; • performing a retrospective review for oil production and exploitation assets by comparing the forecast operating results made in the prior year's impairment assessment with the current year's operating results; • re-performing calculations made by management in arriving at the year end assessments of recoverable amounts and comparing the calculated recoverable amounts with the actual carrying amounts and assessing whether any impairment charges or reversals of previously recognised impairment charges were necessary; • performing sensitivity analyses by making adjustments to future crude oil prices and the discount rate to assess the risk of possible management bias in the impairment assessment exercise.

Key audit matters *(Continued)*

Valuation of interests in property development

Refer to accounting policy 1(j) and notes 2(e) and 14 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2016, interests in property development represented the Group's interests in the development of residential and commercial properties located in Macau and Mainland China which were stated at an aggregate fair value of HK$13,389 million. The Group recognised a surplus on revaluation of these assets for the year ended 31 December 2016 of HK$1,274 million in the consolidated statement of comprehensive income. The interest in property development in Macau mainly represented the Lote P property development project. The construction work at the Lote P property development project has been suspended since December 2015 as a consequence of ongoing litigation in respect of the terms of the land lease. Any unfavourable outcome of the court proceedings may have an adverse impact on the valuation thereof. The fair values of interests in property development were measured using a discounted cash flow model prepared by management. We identified the valuation of interests in property development as a key audit matter because of the significance of interests in property development to the Group's total assets and the significance of the changes in fair value of the interests in property development to the Group's other comprehensive income and because the valuation of interests in property development can be inherently subjective and requires the exercise of significant management judgement and estimation which increases the risk of error or management bias, particularly given the uncertainty of the outcome of the court proceedings in respect of the Lote P property development project and the volatility of property prices in Macau and Mainland China.	Our audit procedures to address the valuation of interests in property development included the following: • obtaining and inspecting the discounted cash flow forecasts prepared by management and comparing the key estimates and assumptions made in prior years with the current year and current developments in market; • with the assistance of our internal asset valuation specialists, discussing with management their valuation methodology and challenging the key estimates and assumptions adopted, by comparing those relating to expected future selling prices, rental prices and yields, costs to completion and the discount rates applied with publicly available market information and by utilising the industry knowledge and experience of our internal property valuation specialists; • conducting site visits to all interests in the property development projects to observe the development progress and evaluating whether the development progress for each project was consistent with the development plan as reflected in the latest forecast; • inspecting the external legal opinion received by the Group and other documentation referred to by management in its assessment of the outcome of the court proceedings in relation to the litigation in respect of the land lease for the Lote P property development project; • re-performing calculations made by management in arriving at the year end fair value and comparing the expected profit distribution plans with the latest sales budget plans maintained by management; • performing sensitivity analyses for the Lote P property development project by making adjustments to the completion date of the project to identify any further risk of impairment.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yeung Yuk Fan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2017

Consolidated Income Statement

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2015 $'000
Revenue	3	**6,777,949**	3,992,952
Cost of sales		**(5,249,338)**	(2,467,218)
Other revenue		**23,095**	27,651
Other net (expenses)/income	4(a)	**(274,416)**	154,594
Depreciation and amortisation		**(17,057)**	(17,852)
Staff costs		**(201,918)**	(206,505)
Selling, marketing and distribution expenses		**(306,349)**	(365,783)
Impairment of oil production and exploitation assets	2(g)	**–**	(170,000)
Other operating expenses		**(70,779)**	(114,069)
Fair value changes on investment properties	10	**114,908**	441,674
Profit from operations		**796,095**	1,275,444
Finance costs	4(b)	**(126,479)**	(162,762)
Share of profits of associated companies		**145,891**	3,939
Share of profits of joint ventures		**186,716**	290,711
Profit before taxation	4	**1,002,223**	1,407,332
Income tax	6(a)	**(47,201)**	(177,872)
Profit for the year		**955,022**	1,229,460
Attributable to:			
Shareholders of the Company		**946,737**	1,202,040
Non-controlling interests		**8,285**	27,420
Profit for the year		**955,022**	1,229,460
Earnings per share – Basic/Diluted	7	**$0.82**	$1.04

The notes on pages 70 to 132 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	2016 $'000	2015 $'000
Profit for the year	**955,022**	1,229,460
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**(294,356)**	(247,962)
Changes in fair value of interests in property development	**1,274,011**	(112,549)
Share of other comprehensive income of joint ventures and associated companies	**(268,806)**	(180,384)
	710,849	(540,895)
Total comprehensive income for the year	**1,665,871**	688,565
Attributable to:		
Shareholders of the Company	**1,352,938**	711,465
Non-controlling interests	**312,933**	(22,900)
Total comprehensive income for the year	**1,665,871**	688,565

The notes on pages 70 to 132 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2016 $'000	2015 $'000	2015 $'000
Non-current assets					
Investment properties	10		11,600,514		11,156,633
Property, plant and equipment	11		780,012		819,668
Oil exploitation assets	13		48,156		49,325
Interests in property development	14		13,388,882		12,114,871
Interest in joint ventures	15		3,121,235		3,140,725
Interest in associated companies	16		1,796,371		2,137,106
Loans and advances	18		871,855		895,742
Deferred tax assets	9(a)		176,058		116,244
			31,783,083		30,430,314
Current assets					
Inventories	17	12,083,996		16,273,680	
Trade and other receivables	18	1,797,498		1,495,488	
Loans and advances	18	24,816		29,760	
Amount due from a joint venture	15	72,452		56,209	
Pledged bank deposit	27	15,000		15,000	
Cash and bank balances		795,400		1,176,439	
		14,789,162		19,046,576	
Current liabilities					
Trade and other payables	19	5,166,617		6,173,325	
Amounts due to non-controlling interests	20	200,000		200,000	
Amount due to a joint venture	15	694,793		741,841	
Loan from an associated company	16	35,781		–	
Bank loans	22	2,544,200		1,796,600	
Current taxation		82,268		161,144	
		8,723,659		9,072,910	
Net current assets			6,065,503		9,973,666
Total assets less current liabilities			37,848,586		40,403,980

Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2016 $'000	2015 $'000	2015 $'000
Non-current liabilities					
Loan from ultimate holding company	21	**1,534,546**		5,587,640	
Loan from a fellow subsidiary	21	**814,056**		851,803	
Bank loans	22	**7,525,853**		6,910,458	
Other payables		**21,409**		23,342	
Deferred tax liabilities	9(a)	**861,838**		927,126	
			10,757,702		14,300,369
NET ASSETS			**27,090,884**		26,103,611
Capital and reserves					
Share capital	23(b)		**8,417,472**		8,417,472
Reserves			**15,162,221**		14,476,678
Total equity attributable to the shareholders of the Company			**23,579,693**		22,894,150
Non-controlling interests			**3,511,191**		3,209,461
TOTAL EQUITY			**27,090,884**		26,103,611

Approved and authorised for issue by the board of directors on 22 March 2017.

Or Wai Sheun
Director

Lai Ka Fai
Director

The notes on pages 70 to 132 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Attributable to shareholders of the Company							
	Share capital $'000	Capital reserve $'000	Fair value reserves $'000	Exchange reserves $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2015	8,417,472	416	2,259,307	931,471	11,229,907	22,838,573	3,240,614	26,079,187
Changes in equity for 2015								
Profit for the year	–	–	–	–	1,202,040	1,202,040	27,420	1,229,460
Other comprehensive income	–	–	(85,613)	(404,962)	–	(490,575)	(50,320)	(540,895)
Total comprehensive income	–	–	(85,613)	(404,962)	1,202,040	711,465	(22,900)	688,565
Dividends approved in respect of the previous year	–	–	–	–	(414,245)	(414,245)	–	(414,245)
Dividends approved in respect of the current year	–	–	–	–	(241,643)	(241,643)	–	(241,643)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(8,253)	(8,253)
At 31 December 2015	8,417,472	416	2,173,694	526,509	11,776,059	22,894,150	3,209,461	26,103,611
At 1 January 2016	**8,417,472**	**416**	**2,173,694**	**526,509**	**11,776,059**	**22,894,150**	**3,209,461**	**26,103,611**
Changes in equity for 2016								
Profit for the year	**–**	**–**	**–**	**–**	**946,737**	**946,737**	**8,285**	**955,022**
Other comprehensive income	**–**	**–**	**944,313**	**(538,112)**	**–**	**406,201**	**304,648**	**710,849**
Total comprehensive income	**–**	**–**	**944,313**	**(538,112)**	**946,737**	**1,352,938**	**312,933**	**1,665,871**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**(425,752)**	**(425,752)**	**–**	**(425,752)**
Dividends approved in respect of the current year	**–**	**–**	**–**	**–**	**(241,643)**	**(241,643)**	**–**	**(241,643)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(11,203)**	**(11,203)**
At 31 December 2016	**8,417,472**	**416**	**3,118,007**	**(11,603)**	**12,055,401**	**23,579,693**	**3,511,191**	**27,090,884**

As at 31 December 2016, loans from non-controlling interests of $2,873,000 (2015: $2,696,000) are classified as equity being the capital contributions to subsidiaries by the non-controlling interests.

The notes on pages 70 to 132 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2015 $'000
Net cash generated from operating activities	24(a)	**2,885,086**	202,229
Investing activities			
Proceeds from sale of property, plant and equipment		**766**	62
Proceeds from sale of investment properties		**21,584**	5,096
Additions to investment properties		**(139,960)**	(29,991)
Additions to property, plant and equipment		**(9,786)**	(9,652)
Increase in loan from an associated company		**35,735**	–
Decrease in loans to associated companies		**12,439**	17,758
Dividend received from an associated company		**1,470**	–
Dividend received from a joint venture		**66,243**	54,448
Decrease/(Increase) in bank deposits with maturity more than 3 months		**997**	(7,433)
Acquisition of a subsidiary	24(b)	**(184,481)**	–
Proceeds from disposal of interests in subsidiaries	24(c)	**–**	10
Net cash (used in)/generated from investing activities		**(194,993)**	30,298
Financing activities			
Drawdown of bank loans		**2,095,356**	2,807,130
Repayment of bank loans		**(732,361)**	(2,017,818)
Decrease in loan from ultimate holding company		**(3,709,174)**	(1,191,340)
(Decrease)/Increase in loan from a fellow subsidiary		**(37,747)**	851,803
Dividends paid to shareholders of the Company		**(667,241)**	(654,793)
Dividends paid to non-controlling interests		**(11,203)**	(8,253)
Net cash used in financing activities		**(3,062,370)**	(213,271)
Net (decrease)/increase in cash and cash equivalents		**(372,277)**	19,256
Cash and cash equivalents at 1 January		**1,169,006**	1,157,340
Effect of foreign exchange rate changes		**(7,765)**	(7,590)
Cash and cash equivalents at 31 December		**788,964**	1,169,006
Analysis of balances of cash and cash equivalents at 31 December			
Cash and bank balances		**795,400**	1,176,439
Less: Bank deposits with maturity more than 3 months		**(6,436)**	(7,433)
Cash and cash equivalents		**788,964**	1,169,006

The notes on pages 70 to 132 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Measurement basis

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties, interests in property development and financial instruments classified as held for trading and available-for-sale investments, which are measured at their fair values, as explained in the accounting policies set out below.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of Kowloon Development Company Limited and all of its subsidiaries made up to 31 December, together with the Group's share of the results for the year and net assets of its associated companies and joint ventures. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

1 Significant accounting policies *(Continued)*

(d) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1 (s)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 Significant accounting policies *(Continued)*

(f) Interest in subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has the power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(n)) or, when appropriate, the cost on initial recognition of an investment in an associated company or joint venture (see note 1(g)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(s)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies *(Continued)*

(g) Associated companies and joint ventures

An associated company is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractual agree to share control of the arrangement and have rights to the net assets of the arrangement.

An investment in an associated company or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, an investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition changes in the Group's share of the investee's net assets and any impairment losses relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in an associated company or a joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associated company or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associated companies and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associated company becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associated company or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(n)).

In the Company's statement of financial position, investments in associated companies and joint ventures are stated at cost less impairment losses (see note 1(s)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies *(Continued)*

(h) Investment properties

Investment properties are land and/or buildings held under leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property. They are valued semi-annually by independent firm of professional valuers on a market value basis. Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair values cannot be reliably measured at that time in which case they are stated at cost less any impairment losses. All changes in fair value of investment properties are recognised directly in the consolidated income statement.

(i) Property, plant and equipment

(i) Leasehold land and buildings held for own use

Leasehold land held for own use is stated at cost less accumulated depreciation and impairment losses.

Leasehold buildings held for own use which are situated on leasehold land classified as held under operating lease are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

(ii) Other property, plant and equipment

Other property, plant and equipment (other than buildings held for own use) is stated at cost less accumulated depreciation and impairment losses (see note 1(s)).

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Interests in property development

Interests in property development are stated at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, unless there is objective evidence that the interests in property development have been impaired, whereupon any amount held in the fair value reserve in respect of the interests in property development is transferred to the consolidated income statement for the period in which the impairment is identified (see note 1(s)). The fair value of interests in property development is determined based on the estimated entitlements to the interests in property development. When the interests in property development are derecognised, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement.

(k) Oil exploitation assets

Costs incurred for the acquisition and maintenance of the exploitation rights of the Group's oil exploration and production activities are capitalised as oil exploitation assets. Oil exploitation assets are stated at cost less accumulated amortisation and impairment losses. The amortisation is calculated based on unit of production method based upon the estimated proved and probable oil reserves.

1 Significant accounting policies *(Continued)*

(l) Inventories

(i) Land held for future development

Land held for future development is stated at the lower of cost and the estimated net realisable value. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the properties.

(ii) Properties under development

Properties under development are stated at the lower of cost and estimated net realisable value. Cost comprises the acquisition cost of land, borrowing costs capitalised, aggregate costs of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the properties.

(iii) Properties held for sale

Properties held for sale are stated at the lower of cost and estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

(iv) Trading goods and consumables

Inventories other than consumables are stated at the lower of cost and net realisable value. Consumables are stated at cost less any provision for obsolescence. Cost of inventories, other than properties, is determined using the weighted average method. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts.

(n) Financial assets

The Group's and the Company's policies for financial assets, other than investments in subsidiaries, associated companies and joint ventures, are as follows:

Financial assets are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. These assets are subsequently accounted for as follows, depending on their classification:

Financial investments held for trading are classified as current assets. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the income statement. The net gain or loss recognised in the income statement does not include any dividends or interest earned on these investments as they are recognised in accordance with the policies set out in note 1(u)(v) and 1(u)(vi).

1 Significant accounting policies *(Continued)*

(n) Financial assets *(Continued)*

Financial assets which do not fall into any of the above categories are classified as available-for-sale investments. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(s)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(u)(v) and 1(u)(vi) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debts securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(s)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Borrowings

Borrowings are recognised initially at fair value and subsequently stated at amortised cost. Any difference between the amount initially recognised and the redemption value is amortised to the income statement or the cost of the qualifying assets over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development costs financed out of general working capital, to the average rate thereof.

1 Significant accounting policies *(Continued)*

(r) Depreciation and amortisation

(i) Leasehold land and buildings

Leasehold land and buildings are stated at cost less accumulated depreciation and impairment losses. Leasehold land is depreciated over the remaining term of the leases. Buildings and improvements thereto are depreciated over the shorter of their useful lives and the unexpired terms of the leases.

(ii) Oil production assets

Oil production assets include all property, plant and equipment arising from oil exploration and production activities. Depreciation of certain oil production assets is calculated based on a unit of production method based upon the estimated proved and probable oil reserves to write off the cost of each asset, less any estimated residual value.

(iii) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Future estimated dismantling and restoration costs of other property, plant and equipment are discounted at appropriate rates and are capitalised as part of the costs of other property, plant and equipment, which are subsequently depreciated. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time, is reflected as an adjustment to the costs.

Except for certain oil production assets as set out in note 1 (r)(ii) above, depreciation is calculated on a straight line method to write off the assets over their estimated useful lives as follows:

– Air conditioning plant, plant and machinery, lifts and escalators	5 to 10 years
– Furniture and fixtures, motor vehicles, electronic data processing equipment and others	2 to 5 years

(s) Impairment of assets

(i) Impairment of investments in debt and equity securities, interests in property development and other receivables

Investments in debt and equity securities, interests in property development and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant accounting policies *(Continued)*

(s) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities, interests in property development and other receivables *(Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associated companies and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(g)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(s)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(s)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities and interests in property development, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities and interests in property development are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

1 Significant accounting policies *(Continued)*

(s) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities, interests in property development and other receivables *(Continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

– property, plant and equipment (other than properties carried at fair values);

– leasehold land held for own use;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associated companies and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 Significant accounting policies *(Continued)*

(s) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, "Interim financial reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 1(s)(i) and 1(s)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, interests in property development, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity securities or interests in property development increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

1 Significant accounting policies *(Continued)*

(t) Income tax *(Continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(u) Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Sale of properties

Revenue arising from sale of properties is recognised upon the later of the execution of a binding sale agreement and when the relevant occupation permit/completion certificate is issued by the respective building authority, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer and is net of business tax. Payments received from the purchasers prior to this stage are recorded as deposits received on sale of properties in the statement of financial position.

(iii) Income from interests in property development

Revenue from interests in property development is recognised when the Group is entitled to a distribution in respect of the investment.

(iv) Sale of crude oil

Revenue arising from the sale of crude oil is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither continuous managerial involvement to the degree usually associated with ownership, nor effective control over the crude oil sold.

1 Significant accounting policies *(Continued)*

(u) Recognition of revenue *(Continued)*

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

Interest income is recognised on a time-apportionment basis throughout the life of the asset concerned.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

1 Significant accounting policies *(Continued)*

(w) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued *(Continued)*

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(w)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(w)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 Significant accounting policies *(Continued)*

(x) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies *(Continued)*

(y) Operating lease charges

Where the Group has the use of assets held under operating lease, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)) or is held for development for sale (see note 1(l)(i)).

(z) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

Contributions to retirement plans (defined contribution retirement plans) managed by respective local governments of the municipalities in which the Group operates in the Mainland China are charged to profit or loss as and when incurred, except to the extent that they are included in properties under development for sale not yet recognised as an expense.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies (which are described in note 1), management has made the following judgements that have significant effect on the amounts recognised in the financial statements.

(a) Depreciation and amortisation

The Group depreciates property, plant and equipment other than properties and oil production assets on a straight line basis over the estimated useful lives of 2 to 10 years, after taking into account of the estimated residual value, using the straight line method, commencing from the date the asset is placed into productive use. The estimated useful lives reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's assets.

Certain oil production assets and oil exploitation assets are depreciated and amortised based on a unit of production method based upon the estimated proved and probable oil reserves. The estimates of the Group's oil reserves are the best estimates based on the information currently available to the management and represent only approximate amounts because of the subjective judgements involved in developing such information. Oil reserve estimates are subject to revision, either upward or downward, based on new relevant information. Changes in oil reserves will affect unit of production depreciation, amortisation and depletion recorded in the Group's consolidated financial statements for oil production assets and oil exploitation assets related to oil production activity. A reduction in oil reserves will increase depreciation, amortisation and depletion charges.

(b) Allowances for bad and doubtful debts

The policy for allowances for bad and doubtful debts of the Group is based on the evaluation of collectability, ageing analysis of debtors, realisable values of collateral and on management's judgement. A considerable amount of judgement is required in assessing the ultimate recoverability of receivables and loans and advances, including making references to the current creditworthiness and the past collection history of each customer.

(c) Estimation of fair value of investment properties

Investment properties are stated at market value based on a valuation performed by an independent firm of professional valuers at the end of the reporting period based on certain assumptions (see note 10(b)).

The fair value of investment properties is assessed semi-annually by independent qualified valuers, by using the income capitalisation approach with reference to sales transactions as convertible in the market. The income capitalisation approach is the sum of the term value and the reversionary value calculated by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period.

The fair value of investment properties under development is assessed semi-annually by independent qualified valuers, by estimating the fair value of such properties as if they were completed in accordance with relevant development plan, which makes reference to the average selling prices based on certain comparable sales transactions in the market and adjusted for differences such as location, size, timing and other factors collectively, and then deducting the estimated cost to complete the construction.

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(d) Estimation of provision for land held for future development and properties under development and held for sale

Management determines the net realisable value of land held for future development and properties under development and held for sale by using the prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers.

Management's assessment of net realisable value of land held for future development and properties under development and held for sales requires judgement as to the anticipated sale prices with reference to the recent sale transaction in nearby locations, rate of new property sales, marketing costs and the expected costs to complete the properties and the legal and regulatory framework and general market conditions.

(e) Estimation of fair value of interests in property development

Interests in property development are stated at their fair value measured using a discounted cash flow model. In preparing the discounted cash flow model, management estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate based on the past performance, current market conditions, development and building plans, sale and marketing plans and management's expectations for market development and terms provided under the co-investment agreements. Any adverse change in the key assumptions could decrease the fair value.

Interests in property development represent the Group's interests in the development of two properties located at Lote P and Lotes T+T1 of Novos Aterros da Areia Preta, in Macau and one property located at Huizhou, in Mainland China, under co-investment agreements with the ultimate holding company, Polytec Holdings International Limited ("Polytec Holdings") and two of its wholly owned subsidiaries.

In respect of the development project at Lote P, its land concession was agreed in December 1990 whereby the land use was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ending on 25 December 2015 (the "Expiry Date"). If the project had been completed on or before the Expiry Date, it would have become a definite land concession which would be renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to the delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but was declined by the relevant department of the Macau SAR Government.

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(e) Estimation of fair value of interests in property development *(Continued)*

Based on a legal opinion received by the Group, Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly owned subsidiary of the ultimate holding company of the Company, has sufficient grounds to apply to the Courts of the Macau SAR for remedies in all aspects to continue and complete the project. A few legal actions have been initiated by the legal representatives of PCL and are now in progress. Based on the opinion of the legal expert, the Courts will consider and judge on the essential points regarding the delays caused by the Macau SAR Government and the right of PCL to claim for compensation of time in order to allow the completion of the construction work of the Lote P development project and deliver the properties to the respective purchasers. Currently, the Group is still awaiting hearing dates to be fixed by the Courts of the Macau SAR for the legal proceedings.

As the outcome of these court proceedings is still uncertain, management of the Company has taken into account all available evidence, including the opinion of legal experts, in preparing the discounted cash flow model in order to assess the fair value of the project. Management of the Company believes that PCL has strong legal grounds to obtain a favourable judgment so that the Lote P development project will be re-activated and completed. The construction work will be resumed as soon as practicable subject to a favourable judgment being obtained and relevant approvals being given by the Macau SAR Government. No impairment for the interests in property development was considered necessary at 31 December 2016.

In respect of the development project at Lotes T+T1, the expiry date of the land concession is 5 July 2017. Based on the current status of the development, management of the Company considers that the Lotes T+T1 project will be completed before the expiry date.

One of the key assumptions for the discounted cash flow model to measure the fair value of the interest in property development of Lote P is the completion date. As at 31 December 2016, it is estimated that deferring the completion time of the Lote P development project by one year (2015: six months), with all other variables held constant, would have decreased the fair value reserve of the interest in property development by $698,807,000 (2015: $660,066,000).

(f) Impairment of interest in subsidiaries, associated companies and joint ventures

In considering the impairment that may be required for the Company's interest in subsidiaries, associated companies and joint ventures, the recoverable amount of the assets needs to be determined. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs of the subsidiaries, associated companies and joint ventures. The Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs of subsidiaries, associated companies and joint ventures.

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(g) Estimated impairment of oil production assets and oil exploitation assets

Oil production and exploitation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amounts may exceed the recoverable amounts, which is considered to be the higher of the fair value less costs of disposal and value in use. The fair value of oil production and exploitation assets is determined based on the present value of estimated future cash flows arising from the continued use of the assets. Cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the assets. Determination as to whether and how much an asset is impaired involves management judgement in estimating future crude oil price, the discount rate used in discounting the projected cash flows and the production profile. The impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan and on the assumptions that all relevant licences and permits are obtained. However, the business environment, including crude oil prices, is affected by a wide range of global and domestic factors, which are all beyond the control of the Group. Any adverse change in the key assumptions could increase the impairment provision.

The gas flaring permit to flare associated gas for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group) in Kazakhstan, will expire on 30 June 2017.

Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a longer period so as to enable it to continue to conduct normal crude oil production after 30 June 2017 and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the other alternatives. Based on the above, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 31 December 2016, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and estimated that the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values. No further impairment is considered necessary for the year ended 31 December 2016. In 2015, in view of the significant drop in crude oil prices, the carrying amounts of oil production and exploitation assets exceeded their estimated recoverable amounts. Accordingly, impairment for oil production assets and oil exploitation assets amounting to $156,400,000 and $13,600,000 respectively, was recognised in the Group's consolidated income statement. The recoverable amounts of oil production and exploitation assets were determined based on the value in use calculations applying a discount rate of 12.5% (2015: 12.5%).

Crude oil price assumptions were based on market expectations. At 31 December 2016, it is estimated that an increase/decrease of 20% (2015: 20%) in the estimated crude oil price used in the assessment, with all other variables held constant would have increased/decreased the carrying amounts of the oil production and exploitation assets by $285,252,000/$269,746,000 (2015: $281,621,000/$332,135,000). The discount rate used represents the rate to reflect the time value of money and the risks specific to the assets. It is estimated that an increase/decrease of 200 basis points (2015: 200 basis points) in the discount rate used in the assessment, with all other variables held constant would have decreased/increased the carrying amounts of the oil production and exploitation assets by $54,421,000/$61,203,000 (2015: $62,478,000/$70,144,000).

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(h) Land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditure including the costs of land use rights, borrowing costs and all qualified property development expenditure. Significant judgement is required in determining the extent of LAT. The Group recognises LAT based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated income statement in the periods in which such tax is finalised with local tax authorities.

3 Segment reporting

The Group manages its business by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified the following six reportable segments.

– Property development segment (Hong Kong/Mainland China/Macau): the development and sale of properties and interests in property development. Given the importance of the property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.

– Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.

– Oil segment: oil exploration and production.

– Other businesses segment: mainly includes financial investments, the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

Revenue comprises mainly rental income from properties, gross proceeds from sale of properties and crude oil and interest income.

Reportable segment profit represents profit before taxation by excluding fair value changes on investment properties, finance costs, exceptional items and head office and corporate income/expenses.

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets.

3 Segment reporting *(Continued)*

(a) Segment results and assets

Information regarding the Group's reportable segments as provided to the Group's top management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	2016						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Revenue	6,777,949	2,435,347	3,719,192	–	340,841	77,377	205,192
Reportable segment profit	1,378,040	511,892	407,718	5,620	386,604	(30,238)	96,444
Other net expenses	(274,416)	–	(276,000)	–	1,584	–	–
Fair value changes on investment properties	114,908	–	–	–	114,908	–	–
Share of fair value changes on investment properties of a joint venture	37,400	–	–	–	37,400	–	–
Head office and corporate expenses	(127,230)						
Finance costs	(126,479)						
Profit before taxation	1,002,223						
Share of profits of associated companies	145,891	–	143,030	–	–	–	2,861
Share of profits of joint ventures	186,716	–	83,302	–	103,414	–	–
Interest income	66,346	–	–	–	–	–	66,346
Write down of inventories	(276,000)	–	(276,000)	–	–	–	–
Depreciation and amortisation	(50,281)	–	–	–	–	(33,333)	(16,948)

3 Segment reporting *(Continued)*

(a) Segment results and assets *(Continued)*

	2015						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Revenue	3,992,952	2,208,124	1,032,017	2,000	344,727	214,724	191,360
Reportable segment profit	1,086,794	588,528	67,273	4,602	384,693	(164,364)	206,062
Other net income	2,096	–	–	–	2,096	–	–
Fair value changes on investment properties	441,674	–	–	–	441,674	–	–
Share of fair value changes on investment properties of a joint venture	174,240	–	–	–	174,240	–	–
Head office and corporate expenses	(134,710)						
Finance costs	(162,762)						
Profit before taxation	1,407,332						
Share of profits of associated companies	3,939	–	2,773	–	–	–	1,166
Share of profits of joint ventures	290,711	–	57,953	–	232,758	–	–
Interest income	30,479	–	–	–	–	–	30,479
Depreciation and amortisation	(81,259)	–	–	–	–	(63,571)	(17,688)
Impairment of oil production and exploitation assets	(170,000)	–	–	–	–	(170,000)	–
Gain on disposal of subsidiaries	152,498	–	–	–	–	–	152,498

3 Segment reporting *(Continued)*

(a) Segment results and assets *(Continued)*

	2016						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	45,556,737	7,819,996	10,741,145	12,131,166	13,046,339	605,925	1,212,166
Deferred tax assets	176,058						
Pledged bank deposit	15,000						
Cash and bank balances	795,400						
Head office and corporate assets	29,050						
Consolidated total assets	46,572,245						
Interest in associated companies	1,796,371	–	1,767,208	–	–	–	29,163
Interest in and amounts due from joint ventures	3,193,687	–	1,760,291	–	1,433,396	–	–

	2015						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	48,142,902	8,849,947	13,976,353	10,901,324	12,558,019	636,411	1,220,848
Deferred tax assets	116,244						
Pledged bank deposit	15,000						
Cash and bank balances	1,176,439						
Head office and corporate assets	26,305						
Consolidated total assets	49,476,890						
Interest in associated companies	2,137,106	–	2,109,334	–	–	–	27,772
Interest in and amounts due from joint ventures	3,196,934	–	1,800,709	–	1,396,225	–	–

3 Segment reporting *(Continued)*

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than financial instruments and deferred assets. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of non-current assets is based on the physical location of the asset and, in case of interests in associated companies and joint ventures, the location of operations.

	Revenue		Non-current assets	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Hong Kong (place of domicile)	**2,958,371**	2,728,280	**10,450,586**	10,073,041
Mainland China	**3,742,201**	1,047,948	**4,880,498**	5,220,449
Macau	**–**	2,000	**1,433,396**	1,396,225
Kazakhstan	**77,377**	214,724	**581,808**	613,742
	6,777,949	3,992,952	**17,346,288**	17,303,457

In addition to the above non-current assets, the Group has interests in property development of $12,060,840,000 (2015: $10,819,508,000) and $1,328,042,000 (2015: $1,295,363,000) in Macau and Mainland China respectively.

(c) Major customers and suppliers

During the year, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

4 Profit before taxation

Profit before taxation is arrived at after (crediting)/charging:

(a) Other net expenses mainly represent the write down of inventories of $276,000,000 (2015: other net income mainly represented a gain on disposal of subsidiaries of $152,498,000).

4 Profit before taxation *(Continued)*

Profit before taxation is arrived at after (crediting)/charging: *(Continued)*

(b) Finance costs

	2016 $'000	2015 $'000
Interest on bank loans and overdrafts	**142,303**	151,314
Interest on loans from ultimate holding company and a fellow subsidiary	**72,226**	114,527
Less: Amount capitalised *(Remark)*	**(88,050)**	(96,442)
	126,479	169,399
Less: Interest expenses included as other operating expenses	**–**	(6,637)
	126,479	162,762

Remark: Borrowing costs were capitalised at rates of 1.20% – 2.26% (2015: 1.42% – 1.66%) per annum in Hong Kong and 4.75% – 6.65% (2015: 5.50% – 6.77%) per annum in Mainland China.

(c) Other items

	2016 $'000	2015 $'000
Auditors' remuneration	**5,518**	5,290
Amortisation of oil exploitation assets *(Remark)*	**1,169**	3,332
Depreciation and amortisation of property, plant and equipment *(Remark)*	**49,112**	77,927
Staff costs *(Remark)*	**229,925**	237,553
Total staff costs	**241,841**	237,553
Less: Amount capitalised	**(11,916)**	–
Impairment of bad and doubtful debts	**584**	12,223
Rentals receivable under operating leases less outgoings	**(315,795)**	(320,127)
Rental income	**(340,841)**	(344,727)
Less: Outgoings	**25,046**	24,600
Interest income	**(66,346)**	(30,479)
Impairment of bad and doubtful debts written back	**(1,633)**	(278)

Remark: Cost of sales includes $39,220,000 (2015: $73,267,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above.

5 Directors' and management's emoluments

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to Section 383(1) to the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Performance related bonuses $'000	Provident fund contributions $'000	2016 Total $'000
Executive directors					
Or Wai Sheun	–	–	–	–	–
Lai Ka Fai	170	2,182	660	201	3,213
Or Pui Kwan	–	1,932	260	18	2,210
Lam Yung Hei *(Remark)*	–	538	269	9	816
Non-executive directors					
Ng Chi Man	250	–	–	–	250
Yeung Kwok Kwong	250	2,384	610	220	3,464
Independent non-executive directors					
Li Kwok Sing, Aubrey	250	–	–	–	250
Lok Kung Chin, Hardy	250	–	–	–	250
Seto Gin Chung, John	250	–	–	–	250
David John Shaw	250	–	–	–	250
	1,670	7,036	1,799	448	10,953

Remark: Mr. Lam Yung Hei was appointed as executive director of the Company on 1 July 2016.

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Performance related bonuses $'000	Provident fund contributions $'000	2015 Total $'000
Executive directors					
Or Wai Sheun	–	–	–	–	–
Lai Ka Fai	170	2,078	650	191	3,089
Or Pui Kwan	–	965	255	18	1,238
Non-executive directors					
Keith Alan Holman *(Remark)*	101	–	–	–	101
Ng Chi Man	250	–	–	–	250
Yeung Kwok Kwong	250	2,272	598	209	3,329
Independent non-executive directors					
Li Kwok Sing, Aubrey	250	–	–	–	250
Lok Kung Chin, Hardy	250	–	–	–	250
Seto Gin Chung, John	250	–	–	–	250
David John Shaw	250	–	–	–	250
	1,771	5,315	1,503	418	9,007

Remark: Mr. Keith Alan Holman retired from the office of the Company on 27 May 2015.

5 Directors' and management's emoluments *(Continued)*

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2015: two) are directors whose emoluments are disclosed in note 5(a). The aggregate of the emoluments in respect of the remaining three (2015: three) individuals are as follows:

	2016 $'000	2015 $'000
Salaries and allowances	7,213	6,239
Performance related bonuses	779	636
Provident fund contributions	54	168
	8,046	7,043

The emoluments of the individuals with the highest emoluments are within the following bands:

	2016	2015
$1,500,001 – $2,000,000	–	1
$2,000,001 – $2,500,000	2	1
$2,500,001 – $3,000,000	–	–
$3,000,001 – $3,500,000	–	1
$3,500,001 – $4,000,000	1	–

6 Income tax

(a) Taxation in the consolidated income statement represents:

	2016 $'000	2015 $'000
Current tax – Hong Kong		
Provision for the year	**117,265**	145,712
Under-provision in respect of prior years	**98**	–
	117,363	145,712
Current tax – Outside Hong Kong		
Provision for the year	**32,415**	27,978
Over-provision in respect of prior years	**(1,018)**	(283)
	31,397	27,695
LAT	**11,556**	23,770
Deferred tax		
Change in fair value of investment properties	**15,813**	9,123
Origination and reversal of temporary differences	**(128,928)**	(28,428)
	(113,115)	(19,305)
	47,201	177,872

The provision for Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in relevant jurisdictions.

Under the Provisional Regulations on LAT in Mainland China, all gains arising from the transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditure including the costs of land use rights, borrowing costs and all property development expenditure.

Mainland China tax law also imposed a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. Provision for withholding tax is recognised for the dividends that have been declared and deferred tax liability is recognised for those to be declared in the foreseeable future.

The Group did not recognise any withholding tax for the year of 2016 and 2015.

6 Income tax *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 $'000	2015 $'000
Profit before taxation	**1,002,223**	1,407,332
Tax at applicable tax rates	**133,610**	228,598
Non-deductible expenses	**22,614**	19,619
Non-taxable income	**(99,115)**	(137,418)
Unrecognised tax losses	**6,894**	47,132
Previously unrecognised tax losses utilised	**(20,977)**	(2,335)
Previously unrecognised tax losses now recognised	**(15,210)**	–
LAT on properties sold	**1,187**	11,034
Deferred LAT on changes in fair value of investment properties	**12,758**	5,263
Over-provision in respect of prior years	**(920)**	(283)
Others	**6,360**	6,262
Actual tax expense	**47,201**	177,872

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of $946,737,000 (2015: $1,202,040,000) and the weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2015: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2016 and 2015.

8 Dividends

(a) Dividends attributable to the year

	2016 $'000	2015 $'000
Interim dividend declared and paid of $0.21 (2015: $0.21) per share	**241,643**	241,643
Final dividend proposed after the end of the reporting period of $0.39 (2015: $0.37) per share	**448,766**	425,752
	690,409	667,395

The final dividend declared after the year end has not been recognised as a liability at 31 December.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2016 $'000	2015 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.37 (2015: $0.36) per share	**425,752**	414,245

9 Deferred taxation

(a) The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Future benefit of tax losses $'000	Revaluation of properties $'000	Accelerated depreciation allowances $'000	Others $'000	Total $'000
At 1 January 2015	4,802	(898,255)	36,407	15,704	(841,342)
Exchange adjustments	–	11,155	–	–	11,155
Credited to the income statement	3,732	13,299	1,312	962	19,305
At 31 December 2015	8,534	(873,801)	37,719	16,666	(810,882)
At 1 January 2016	**8,534**	**(873,801)**	**37,719**	**16,666**	**(810,882)**
Exchange adjustments	**–**	**11,987**	**–**	**–**	**11,987**
Credited to the income statement	**8,799**	**107,513**	**(2,937)**	**(260)**	**113,115**
At 31 December 2016	**17,333**	**(754,301)**	**34,782**	**16,406**	**(685,780)**

	2016 $'000	2015 $'000
Net deferred tax assets recognised in the consolidated statement of financial position	**176,058**	116,244
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(861,838)**	(927,126)
	(685,780)	(810,882)

(b) **Deferred tax assets not recognised**

The Group has not recognised deferred tax assets in respect of cumulative tax losses of $468,590,000 (2015: $726,408,000) as the probability of generating future taxable profits in order to utilise the tax losses is uncertain at this point of time. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in Mainland China expire five years after the relevant accounting year end date. The tax losses arising from the operations in Kazakhstan will expire ten years after the relevant accounting year end date.

10 Investment properties

(a) Reconciliation of carrying amount:

	Investment properties completed $'000	Investment properties under development $'000	Total $'000
Valuation			
At 1 January 2015	8,230,240	2,416,258	10,646,498
Exchange adjustments	–	(82,060)	(82,060)
Additions			
– Reclassified from inventories	–	123,547	123,547
– Others	–	29,974	29,974
Disposals	(3,000)	–	(3,000)
Fair value adjustment	227,700	213,974	441,674
At 31 December 2015	8,454,940	2,701,693	11,156,633
At 1 January 2016	**8,454,940**	**2,701,693**	**11,156,633**
Exchange adjustments	**–**	**(86,359)**	**(86,359)**
Additions			
– Reclassified from inventories	**–**	**295,372**	**295,372**
– Others	**–**	**139,960**	**139,960**
Disposals	**(20,000)**	**–**	**(20,000)**
Transfer in/(out)	**73,500**	**(73,500)**	**–**
Fair value adjustment	**47,890**	**67,018**	**114,908**
At 31 December 2016	**8,556,330**	**3,044,184**	**11,600,514**

The fair value adjustment on investment properties is recognised in the line item "Fair value changes on investment properties" on the face of the consolidated income statement.

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable or the date of completion of the property.

10 Investment properties *(Continued)*

(b) Fair values measurement of investment properties

The fair value of the Group's investment properties falls under Level 3 of the three-level fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil).

The investment properties of the Group were revalued at 31 December 2016 by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, who has appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The Group's top management hold discussions with the valuer on the valuation assumptions and valuation results at each interim and annual reporting date.

Information about Level 3 fair value measurements

	Valuation techniques (Note 2(c))	**Unobservable input**	**Range**	**Remark**
Investment properties	Income capitalisation approach	Capitalisation rate	4% to 5.5% (2015: 4% to 6%)	(1)
Investment properties under development	Direct comparison approach	Unit sale rate	\$800 to \$15,000 per square foot (2015: \$800 to \$15,000 per square foot)	(2)

Remarks:
Relationship of unobservable inputs to fair value:
(1) The fair value is negatively correlated to the unobservable input that the lower the factor the higher the fair value.
(2) The fair value is positively correlated to the unobservable input that the higher the factor the higher the fair value.

The movements during the year in the balance of these Level 3 fair value measurements are set out in note 10(a) to the financial statements.

10 Investment properties *(Continued)*

(c) Analysis of the carrying values of investment properties

	2016 $'000	2015 $'000
In Hong Kong		
– Long leases	**7,746,280**	7,707,230
– Medium-term leases	**2,432,450**	2,087,710
Outside Hong Kong		
– Medium-term leases	**1,421,784**	1,361,693
	11,600,514	11,156,633

(d) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of several months to four years. Some leases have an option to renew on expiry at which time all terms are renegotiated. Some leases have provisions for turnover rent. Turnover rent of $3,778,000 was recognised in 2016 (2015: $2,445,000).

The gross carrying amounts of investment properties of the Group held for use in operating leases were $8,556,330,000 (2015: $8,454,940,000).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 $'000	2015 $'000
Within 1 year	**302,545**	249,922
After 1 year but within 5 years	**411,431**	211,410
	713,976	461,332

11 Property, plant and equipment

(a) Reconciliation of carrying amount

		Other property, plant and equipment			
	Leasehold land held for own use $'000	Buildings $'000	Oil production assets $'000	Others $'000	Total $'000
Cost or valuation					
At 1 January 2015	270,206	33,060	1,497,294	101,016	1,901,576
Exchange adjustments	–	–	–	(842)	(842)
Additions	–	–	2,957	6,694	9,651
Disposals	–	–	(99)	(5,459)	(5,558)
At 31 December 2015	270,206	33,060	1,500,152	101,409	1,904,827
At 1 January 2016	**270,206**	**33,060**	**1,500,152**	**101,409**	**1,904,827**
Exchange adjustments	**–**	**–**	**–**	**(958)**	**(958)**
Additions	**–**	**–**	**1,461**	**8,605**	**10,066**
Disposals	**–**	**–**	**(299)**	**(2,854)**	**(3,153)**
At 31 December 2016	**270,206**	**33,060**	**1,501,314**	**106,202**	**1,910,782**
Accumulated depreciation, amortisation and impairment losses					
At 1 January 2015	60,322	7,784	719,178	67,305	854,589
Exchange adjustments	–	–	–	(594)	(594)
Charge for the year	6,605	832	60,239	10,423	78,099
Impairment loss	–	–	156,400	–	156,400
Written back on disposals	–	–	(82)	(3,253)	(3,335)
At 31 December 2015	66,927	8,616	935,735	73,881	1,085,159
At 1 January 2016	**66,927**	**8,616**	**935,735**	**73,881**	**1,085,159**
Exchange adjustments	**–**	**–**	**–**	**(715)**	**(715)**
Charge for the year	**6,604**	**833**	**32,164**	**9,625**	**49,226**
Written back on disposals	**–**	**–**	**(237)**	**(2,663)**	**(2,900)**
At 31 December 2016	**73,531**	**9,449**	**967,662**	**80,128**	**1,130,770**
Carrying value					
At 31 December 2016	**196,675**	**23,611**	**533,652**	**26,074**	**780,012**
At 31 December 2015	203,279	24,444	564,417	27,528	819,668

11 Property, plant and equipment *(Continued)*

(a) Reconciliation of carrying amount *(Continued)*

In 2016, an amount of $114,000 (2015: $172,000) included in the depreciation and amortisation charge for the year was capitalised under inventories.

Key sources of estimation uncertainty relating to oil production assets are disclosed in note 2(g).

The gross carrying amounts of other property, plant and equipment of the Group held for use in operating leases were $7,402,000 (2015: $7,441,000) and the related accumulated depreciation charges were $7,194,000 (2015: $7,289,000).

(b) Analysis of the carrying values of properties

	2016 $'000	2015 $'000
In Hong Kong		
– Long leases	**1,911**	1,940
– Medium-term leases	**218,375**	225,783
	220,286	227,723

12 Interest in subsidiaries

The following table lists out the information relating to Polytec Asset Holdings Limited, a material subsidiary of the Group which has non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016 **$'000**	2015 $'000
NCI percentage	**26.6%**	26.6%
Current assets	**296,715**	706,430
Non-current assets	**14,322,286**	13,081,533
Current liabilities	**(206,034)**	(508,755)
Non-current liabilities	**(1,966,351)**	(2,101,473)
Net assets	**12,446,616**	11,177,735
Carrying amount of NCI	**3,315,373**	2,978,783
Revenue	**211,293**	357,517
Profit for the year	**61,572**	53,476
Total comprehensive income	**1,302,904**	(47,939)
Profit allocated to NCI	**18,095**	15,527
Dividend paid to NCI	**11,203**	8,253
Cash flows generated from operating activities	**14,891**	53,424
Cash flows generated from investing activities	**63,952**	40,793
Cash flows (used in)/generated from financing activities	**(482,873)**	247,135

13 Oil exploitation assets

	2016 $'000	2015 $'000
Cost		
At 1 January and 31 December	**130,579**	130,579
Accumulated amortisation and impairment losses		
At 1 January	**81,254**	64,322
Amortisation during the year	**1,169**	3,332
Impairment loss	**–**	13,600
At 31 December	**82,423**	81,254
Carrying value		
At 31 December	**48,156**	49,325

Key sources of estimation uncertainty relating to oil exploitation assets are disclosed in note 2(g).

14 Interests in property development

	2016 $'000	2015 $'000
At 1 January	**12,114,871**	12,227,420
Change in fair value recognised in other comprehensive income	**1,274,011**	(112,549)
At 31 December	**13,388,882**	12,114,871

Interests in property development represent the Group's interests in the development of various properties in Macau and Mainland China under co-investment agreements with Polytec Holdings and two of its wholly owned subsidiaries. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the development projects which is subject to an aggregate maximum amount. In return, Polytec Holdings and its two wholly owned subsidiaries will pay to the Group cash flows from the development projects according to the formulae set out in the co-investment agreements. Details of the funding arrangements and other key terms of the co-investment agreements were disclosed in the Company's Circulars dated 23 May 2006 and 30 October 2013. The basis and estimations for arriving at the fair value of the interests in property development are further described in note 2(e).

15 Interest in joint ventures

	2016 $'000	2015 $'000
Share of net assets	**2,901,735**	2,921,225
Loan to a joint venture	**219,500**	219,500
	3,121,235	3,140,725
Amount due from a joint venture	**72,452**	56,209
Amount due to a joint venture	**(694,793)**	(741,841)
	2,498,894	2,455,093

Loan to a joint venture is unsecured, interest bearing at fixed rate with reference to bank lending rate and is not expected to be repaid within one year.

The amounts due from and to joint ventures are unsecured, interest free and repayable on demand.

Details of the Group's interest in joint ventures which are accounted for using the equity method in the consolidated financial statements are as follows:

		Proportion of ownership interest			
Joint venture	Place of incorporation/ operation	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
CITIC Polytec Property (Foshan) Company Limited *(Remark)*	Mainland China	50.0%	50.0%	–	Property development
South Bay Centre Company Limited	Macau	36.7%	–	50.0%	Property investment and trading

Remark:
CITIC Polytec Property (Foshan) Company Limited is an equity joint venture in Mainland China. It has wholly owned subsidiaries incorporated in Mainland China namely 佛山市南海區山語湖教育投資有限公司 and 佛山市山語湖酒店物業管理有限公司 whose principal businesses are the provision of educational services and the provision of property management services respectively. The Group's effective interest is 50%.

All joint ventures are unlisted corporate entities for which quoted market price are not available.

15 Interest in joint ventures *(Continued)*

The aggregate financial information of joints ventures that are individually immaterial is as follows:

	2016 $'000	2015 $'000
Carrying amount in the consolidated financial statements	**2,901,735**	2,921,225
The Group's effective share of joint ventures:		
Profit for the year	**186,716**	290,711
Other comprehensive income	**(139,963)**	(48,546)
Total comprehensive income	**46,753**	242,165

16 Interest in associated companies

	2016 $'000	2015 $'000
Share of net assets	**252,587**	289,053
Loans to associated companies	**1,543,784**	1,848,053
	1,796,371	2,137,106
Loan from an associated company	**(35,781)**	–
	1,760,590	2,137,106

Loans to associated companies are unsecured, interest free and not expected to be repaid within one year, except for an amount of approximately RMB1,381,000,000 (2015: RMB1,620,000,000) which is interest bearing at a rate determined by the shareholders. As at 31 December 2016, accumulated accrued interest income of approximately RMB1,060,000,000 (2015: RMB932,000,000) due from an associate has not been recognised as the Group considers it is not probable that the economic benefits will flow to the Group as at the end of the reporting period.

Loan from an associated company is unsecured, interest free and repayable on demand.

16 Interest in associated companies *(Continued)*

All of associated companies are unlisted corporate entities for which quoted market prices are not available.

Associated company	Place of incorporation/ operation	Proportion of ownership interest		Principal activities
		Direct	Indirect	
CITIC Polytec Property (Tianjin) Co., Ltd	Mainland China	39.0% *(Remark)*	–	Property development
Easy Living Consultant Limited	Hong Kong	–	49.0%	Provision of building surveying, property management and guarding service
Jeeves (HK) Limited	Hong Kong	–	34.5%	Provision of high class dry cleaning and valeting services
東莞市嘉安達房地產開發有限公司	Mainland China	–	40.0%	Property development

Remark:
In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, Mainland China, the Group is entitled to a share of 49% of profits of the associated company and 10% of the equity interest in the associated company was to have been transferred to the Group upon full payment of the acquisition consideration. The acquisition consideration was fully paid in 2012 but the transfer of the 10% equity interest had not been completed as at 31 December 2016.

All of the associated companies are accounted for using the equity method in the consolidated financial statements.

The aggregate financial information of associated companies that are individually immaterial is as follows:

	2016 $'000	2015 $'000
Carrying amount in the consolidated financial statements	**252,587**	289,053
The Group's effective share of associated companies:		
Profit for the year	**145,891**	3,939
Other comprehensive income	**(128,843)**	(131,838)
Total comprehensive income	**17,048**	(127,899)

17 Inventories

	2016 $'000	2015 $'000
Land held for future development	**12,994**	12,915
Properties under development	**9,636,247**	13,800,534
Properties held for sale	**2,420,246**	2,451,423
Trading goods and consumables	**14,509**	8,808
	12,083,996	16,273,680

The amount of properties held for future development and under development expected to be recovered after more than one year is $12,994,000 (2015: $12,915,000) and $8,277,000,000 (2015: $9,739,770,000) respectively. All of the other inventories are expected to be recovered within one year.

The analysis of carrying value of land under inventories is as follows:

	2016 $'000	2015 $'000
In Hong Kong		
– Long leases	**790,410**	1,489,139
– Medium-term leases	**4,932,884**	4,876,905
	5,723,294	6,366,044
Outside Hong Kong		
– Freehold/Unspecified	**32,625**	32,625
– Long leases	**1,600,744**	1,838,741
– Medium-term leases	**1,560,401**	2,427,625
	3,193,770	4,298,991
	8,917,064	10,665,035

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 $'000	2015 $'000
Carrying amount on inventories sold	**5,249,338**	2,467,218
Write down of inventories	**276,000**	–
	5,525,338	2,467,218

18 Trade and other receivables/Loans and advances

(a) The following is an ageing analysis (based on the due date) of trade receivables and loans and advances at 31 December:

	2016 $'000	2015 $'000
Current	**2,310,407**	1,880,510
Within 3 months	**16,648**	28,368
3 months to 6 months	**350**	1,693
More than 6 months	**3,709**	15,386
Trade receivables and loans and advances	**2,331,114**	1,925,957
Utility and other deposits	**42,875**	36,144
Other receivables and prepayments	**320,180**	458,889
	2,694,169	2,420,990

Utility and other deposits of the Group of $11,689,000 (2015: $5,455,000) are expected to be recovered after more than one year.

Receivables and prepayments of the Group of $280,781,000 (2015: $92,872,000) are expected to be recovered after more than one year.

18 Trade and other receivables/Loans and advances *(Continued)*

(b) Allowance for doubtful debts

Impairment losses in respect of trade and other receivables and loans and advances are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables and loans and advances directly.

The movement for the Group in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 $'000	2015 $'000
At 1 January	**20,386**	9,126
Impairment loss recognised	**584**	12,223
Impairment loss written back	**(1,633)**	(278)
Uncollectible amounts written off	**(1,189)**	(685)
At 31 December	**18,148**	20,386

At 31 December 2016, the Group's trade and other receivables and loans and advances of $7,392,000 (2015: $9,302,000) was individually determined to be impaired. Consequently, specific allowances for doubtful debts of $7,300,000 (2015: $7,960,000) were recorded. The Group does not hold any collateral over the trade and other receivables. The Group considers that the credit risk arising from loans and advances is significantly mitigated by the property held as collateral, with reference to the estimated market value of the property as at 31 December 2016.

(c) Trade and other receivables and loans and advances that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and other receivables and loans and advances that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19 Trade and other payables

The following is an ageing analysis (based on the due date) of trade payables at 31 December:

	2016 $'000	2015 $'000
Not yet due or on demand	**1,692,225**	1,173,878
Within 3 months	**7,422**	54,428
3 months to 6 months	**18**	121
More than 6 months	**3**	27,295
Trade payables	**1,699,668**	1,255,722
Rental and other deposits	**74,824**	77,179
Other payables and accrued expenses	**463,844**	608,355
Deposits received on sale of properties	**2,928,281**	4,232,069
	5,166,617	6,173,325

Rental and other deposits of the Group of $71,973,000 (2015: $72,300,000) are expected to be refunded after more than one year.

Payables and accrued expenses of the Group of $111,692,000 (2015: $74,311,000) are expected to be settled after more than one year.

Deposits received on sale of properties of the Group of $629,262,000 (2015: $2,288,553,000) are expected to be recognised as income within one year.

20 Amounts due to non-controlling interests

Amounts due to non-controlling interests are unsecured, interest free and repayable on demand.

21 Loans from ultimate holding company and a fellow subsidiary

Loans from ultimate holding company and a fellow subsidiary are unsecured, interest bearing at Hong Kong Interbank Offered Rate ("HIBOR") plus a margin per annum and are not expected to be repaid within one year.

22 Bank loans

At 31 December, bank loans were repayable as follows:

	2016 $'000	2015 $'000
Within 1 year or on demand	**2,544,200**	1,796,600
After 1 year but within 2 years	**7,525,853**	106,636
After 2 years but within 5 years	**–**	6,803,822
	7,525,853	6,910,458
	10,070,053	8,707,058

At 31 December, bank loans were secured and unsecured as follows:

	2016 $'000	2015 $'000
Bank loans		
– secured	**9,400,053**	8,257,058
– unsecured	**670,000**	450,000
	10,070,053	8,707,058

Interest on bank loans is charged at HIBOR plus a margin per annum in Hong Kong or by reference to interest rates for term loans published by the People's Bank of China.

Refinancing will be arranged for bank loans of the Group repayable within one year.

23 Total equity

(a) Movements in components of equity and distribution of reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital $'000	Retained profits $'000	Total $'000
At 1 January 2015		8,417,472	6,802,827	15,220,299
Final dividend declared and paid	8(b)	–	(414,245)	(414,245)
Interim dividend declared and paid	8(a)	–	(241,643)	(241,643)
Profit for the year		–	856,843	856,843
At 31 December 2015		8,417,472	7,003,782	15,421,254
At 1 January 2016		**8,417,472**	**7,003,782**	**15,421,254**
Final dividend declared and paid	8(b)	**–**	**(425,752)**	**(425,752)**
Interim dividend declared and paid	8(a)	**–**	**(241,643)**	**(241,643)**
Profit for the year		**–**	**1,626,945**	**1,626,945**
At 31 December 2016		**8,417,472**	**7,963,332**	**16,380,804**

The fair value reserves set up in respect of interests in property development are not available for distribution to shareholders because they do not constitute realised profits within the meaning of Part 6 of the Hong Kong Companies Ordinance.

At 31 December 2016, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance was $1,599,960,000 (2015: $669,410,000).

23 Total equity *(Continued)*

(b) Share capital

	2016 No. of shares	2016 Amount $'000	2015 No. of shares	2015 Amount $'000
Ordinary shares, issued and fully paid At 1 January and 31 December	**1,150,681,275**	**8,417,472**	1,150,681,275	8,417,472

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, borrowings from ultimate holding company and a fellow subsidiary, cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital and maintains an appropriate gearing ratio determined as the Group's net borrowings (bank borrowings plus loans from ultimate holding company and a fellow subsidiary and net of cash and bank balances) over equity attributable to shareholders of the Company. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as raising new debts or redemption of existing debts. The Group's overall strategy remains unchanged from prior year and the gearing ratio as at 31 December 2016 is 49.3% (2015: 61.0%).

24 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash generated from operating activities:

	2016 $'000	2015 $'000
Profit before taxation	**1,002,223**	1,407,332
Adjustments for:		
Unclaimed dividend written back	**(358)**	(595)
(Gain)/Loss on disposal of other property, plant and equipment	**(513)**	2,161
Gain on disposal of investment properties	**(1,584)**	(2,096)
Gain on disposal of subsidiaries	**–**	(152,498)
Share of profits of associated companies	**(145,891)**	(3,939)
Share of profits of joint ventures	**(186,716)**	(290,711)
Write down of inventories	**276,000**	–
Impairment of oil production and exploitation assets	**–**	170,000
Fair value changes on investment properties	**(114,908)**	(441,674)
Interest income	**(20,155)**	(5,801)
Interest expenses	**126,479**	162,762
Depreciation and amortisation	**50,281**	81,259
Operating profit before working capital changes	**984,858**	926,200
Decrease in financial investments	**–**	21,945
Decrease/(Increase) in loans and advances	**28,831**	(855,296)
Decrease in inventories	**3,694,363**	609,820
Increase in trade and other receivables	**(301,378)**	(751,005)
Increase in amount due from a joint venture	**(16,243)**	(16,200)
Decrease in amount due to a joint venture	**(47,048)**	(45,997)
(Decrease)/Increase in trade and other payables	**(1,025,226)**	782,767
Cash generated from operations	**3,318,157**	672,234
Interest received	**20,097**	5,795
Interest paid	**(213,976)**	(259,557)
Profits tax paid	**(239,385)**	(218,767)
Profits tax refunded	**193**	2,524
Net cash generated from operating activities	**2,885,086**	202,229

24 Notes to consolidated cash flow statement *(Continued)*

(b) Acquisition of a subsidiary

	2016 **$'000**
Fair value of assets of a subsidiary acquired	
Property, plant and equipment	**129**
Inventories	**200,042**
Trade and other receivables	**724**
Loan from a fellow subsidiary	**(184,565)**
Trade and other payables	**(16,414)**
Net liabilities acquired	**(84)**
Loan from a fellow subsidiary assigned	**184,565**
Cash consideration and outflow on acquisition of a subsidiary	**184,481**

In 2016, the Group entered into an agreement with Polytec Holdings for the acquisition of a 100% equity interest in a wholly owned subsidiary of Polytec Holdings together with the assignment of loan from a fellow subsidiary for an aggregate consideration of $184,481,000. The assets held by the subsidiary comprised substantially a development project located in Hong Kong.

(c) Disposal of interests in subsidiaries

	2015 $'000
Net liabilities disposed of	
Other receivables	7
Other payable	(2)
Current taxation	(152,493)
	(152,488)
Gain on disposal	152,498
Total sale proceeds/Cash inflow on disposal	10

24 Notes to consolidated cash flow statement *(Continued)*

(d) Non-cash transaction

During 2016, the Group made partial repayment of a loan from a fellow subsidiary by transferring the cash flow of a portion of certain receivables ("receivables") amounting to approximately $721,000,000. The Group has continuing involvement in collecting the receivables on behalf of the fellow subsidiary but no servicing obligation is provided according to the deed. No gain or loss was recognised. As at 31 December 2016, other receivables consisted of an amount of approximately $32,000,000 representing the carrying value of the remaining portion of the above receivables retained by the Group.

25 Capital commitments

Capital commitments outstanding at 31 December contracted but not provided for in the financial statements amounted to $29,891,000 (2015: $68,016,000).

26 Contingent liabilities

As at 31 December 2016, the Group has provided guarantees of $1,011,727,000 (2015: $590,847,000) representing a 50% proportional guarantee in respect of an aggregate of $2,023,453,000 term loan facilities (2015: $1,181,694,000) to a joint venture in Mainland China. The facilities were utilised to the extent of $1,755,150,000 (2015: $1,181,694,000) at 31 December 2016.

27 Pledge of assets

At 31 December 2016, properties having a value of $18,678,732,000 (2015: $15,409,144,000) and bank deposits of $15,000,000 (2015: $15,000,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

28 Subsidiaries

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows:

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Best Power (Asia) Limited	Hong Kong	$2	–	100.0%	Property development
Cinema City (Film Production) Company Limited	Hong Kong	$5,000,000	–	85.0%	Cinematograph film distribution
Cinema City Company Limited	Hong Kong	$1,000,000	–	85.0%	Cinematograph film distribution
Country House Property Management Limited	Hong Kong	$10,000	–	100.0%	Provision of property management, security, technical and house keeping services
Easy Favour Limited	Hong Kong	$1	–	100.0%	Property investment
Elegant Florist Limited	British Virgin Islands	US$1,000	100.0%	–	Investment holding
Eversound Investments Limited	Hong Kong	$1,000,000	–	100.0%	Property development and investment
Fullco Development Limited	Hong Kong	$1	–	100.0%	Property development
Golden Princess Amusement Company Limited	Hong Kong	$100,000	85.0%	–	Distribution of films and investment holding
Golden Princess Film Production Limited	Hong Kong	$10,000	–	85.0%	Cinematograph film distribution
Henmell Investment Limited	Hong Kong	$2	–	100.0%	Property development and investment
Jumbo Power Enterprises Limited	Hong Kong	$2	–	100.0%	Property development and investment
Kowloon Development Engineering Limited	Hong Kong	$2	–	100.0%	Engaging in construction contracts

28 Subsidiaries *(Continued)*

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Kowloon Development Finance Limited	Hong Kong	$2,000,000	100.0%	–	Provision of financial services
Kowloon Development Properties Company Limited	Hong Kong	$1	100.0%	–	Project management
Li Profit Limited	Hong Kong	$7,000,000	–	100.0%	Property development
Marble King International Limited	British Virgin Islands	US$2	100.0%	–	Investment holding
Mass Ventures International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property development and investment
New Basic Holdings Limited	British Virgin Islands	US$1	100.0%	–	Investment holding
Polytec Asset Holdings Limited *(Listed in Hong Kong, Stock code: 208)*	Cayman Islands/ Hong Kong and Macau	$443,896,784	–	73.4%	Property development and investment, oil exploration and production, ice manufacturing and provision of cold storage
Polytec Property (Wuxi) Limited *(Remark 2)*	Mainland China	$1,202,500,000 *(Remark 1)*	–	80.0%	Property development
Polytec Property Good Companion (Shenyang) Limited *(Remark 2)*	Mainland China	US$109,800,000 *(Remark 1)*	–	100.0%	Property development
Spark Team Limited	Hong Kong	$2	100.0%	–	Retail sales
Top Sail International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property development
Tyleelord Development & Agency Company Limited	Hong Kong	$100,000	–	100.0%	Property investment

28 Subsidiaries *(Continued)*

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Un Chau Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Units Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Wealrise Investments Limited	Hong Kong	$2	–	100.0%	Property development and investment
Wealth Genesis Limited	Hong Kong	$2	100.0%	–	Property development and investment
中山市長江兆業地產開發有限公司 *(Remark 2)*	Mainland China	$80,000,000 *(Remark 1)*	–	70.0%	Property development
保利達地產(瀋陽)高悦有限公司 *(Remark 2)*	Mainland China	US$59,600,000 *(Remark 1)*	–	100.0%	Property development

Remarks:
(1) The amount represented the registered capital paid up.
(2) Wholly foreign owned enterprises incorporated in Mainland China.

29 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. No forfeited contributions in respect of unvested benefits of staff leavers was utilised to reduce the Group's ongoing contributions during the year 2016 and 2015. There were no unutilised forfeited contributions at the end of the reporting period of both years. The Group's annual contribution for the year was $663,000 (2015: $656,000).

Contributions to the Mandatory Provident Funds of $5,910,000 (2015: $4,878,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

Employees of the Group's subsidiaries in the Mainland China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal governments. The Group's subsidiaries contribute funds of $3,735,000 (2015: $3,399,000) which were calculated on certain percentages of the average employee salary as agreed by the local municipal governments, to the schemes to fund the retirement benefits of the employees.

30 Material related party transactions

In addition to the transactions and balances disclosed above, the Group also entered into the following material related party transactions.

(a) Polytec Holdings has guaranteed the due performance of the Company in respect of its obligations in the property development project in Tianjin, Mainland China.

(b) As at 31 December 2016, the Group has given guarantees to an insurance company and financial institutions in respect of performance bonds entered into by an associated company to the extent of $24,727,000 (2015: $24,884,000).

(c) During the year, the remuneration for key management personnel being short-term employee benefits amounted to $18,999,000 (2015: $16,050,000) as disclosed in notes 5(a) and 5(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

31 Financial risk management and fair values

The Group is exposed to interest rate, credit, liquidity, currency and other price risks which arise in the normal course of the Group's business as set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by the financial policies and practices undertaken by the Group.

(a) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and borrowings from ultimate holding company and a fellow subsidiary. All the borrowings are on a floating rate basis. The risk is mainly concentrated on the fluctuation in interest rates arising from the Group's borrowings denominated in Hong Kong dollars and Renminbi.

Interest rate risk is managed by the Group's management with defined policies through regular review to determine the strategy as of funding in floating/fixed rate mix appropriate to its current business profile, and to engage in relevant hedging arrangements at the appropriate time.

At 31 December 2016, it is estimated that an increase/decrease in interest rates by 100 basis points, with all other variables held constant, would have decreased/increased the Group's result attributable to shareholders of the Company and retained profits by approximately $59 million (2015: $91 million).

The sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amount of interest bearing borrowings outstanding at the end of the reporting period was outstanding for the whole year. The analysis has been performed on the same basis for 2015.

31 Financial risk management and fair values *(Continued)*

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables. Collateral is usually obtained in respect of loans and advances to customers.

Cash at bank, deposits placed with financial institutions and investments are with counterparties with sound credit ratings to minimise credit exposure.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

Cash management of the Company and wholly owned subsidiaries of the Group are substantially centralised at the Group level. The non wholly owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the management of the Group. The Group's policy is to regularly monitor current, expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

31 Financial risk management and fair values *(Continued)*

(c) Liquidity risk *(Continued)*

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	Contractual undiscounted cash flows					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Undated $'000	Total $'000	Carrying amount $'000
At 31 December 2016						
Trade and other payables	2,044,804	70,908	39,111	73,647	2,228,470	2,228,470
Amount due to non-controlling interests	–	–	–	200,000	200,000	200,000
Bank loans	2,796,561	7,625,958	–	–	10,422,519	10,070,053
Loan from ultimate holding company	–	–	–	1,534,546	1,534,546	1,534,546
Loan from a fellow subsidiary	–	–	–	814,056	814,056	814,056
Amount due to a joint venture	694,793	–	–	–	694,793	694,793
Loan from an associated company	–	–	–	35,781	35,781	35,781
Other payables	–	–	–	21,409	21,409	21,409
	5,536,158	7,696,866	39,111	2,679,439	15,951,574	15,599,108
At 31 December 2015						
Trade and other payables	1,823,631	17,545	18,238	73,079	1,932,493	1,932,493
Amount due to non-controlling interests	–	–	–	200,000	200,000	200,000
Bank loans	1,921,496	211,524	6,874,757	–	9,007,777	8,707,058
Loan from ultimate holding company	–	–	–	5,587,640	5,587,640	5,587,640
Loan from a fellow subsidiary	–	–	–	851,803	851,803	851,803
Amount due to a joint venture	741,841	–	–	–	741,841	741,841
Other payables	–	–	–	23,342	23,342	23,342
	4,486,968	229,069	6,892,995	6,735,864	18,344,896	18,044,177

The Group is exposed to liquidity risk that arises from guarantees in respect of banking facilities of a joint venture. The guarantees are callable if the joint venture is unable to meet its obligations. Further details are set out in to note 26.

31 Financial risk management and fair values *(Continued)*

(d) Currency risk

The Group owns assets and conducts its business mainly in Hong Kong, Mainland China, Macau and Kazakhstan.

The Group's primary foreign currency exposures arise from its direct property development and investments in Mainland China. The Group is mainly exposed to the effects of fluctuation in Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings and as future returns from these investments are denominated in Renminbi, exposure to Renminbi currency risk is minimised.

The Group conducts its oil exploration and production business primarily in Kazakhstan. Currency exposure arises from sale of crude oil in a currency other than the local currency of the domicile of the Group entity making the sale. The sales are substantially denominated in United States Dollars, whilst the costs are substantially denominated in Kazakhstan Tenge.

Management considers this risk is insignificant to the Group as a whole but still manages and monitors this risk to ensure that its net exposure is kept to an acceptable low level.

(e) Other price risk

The Group is also exposed to property price risk through its interests in property development classified as non-current assets. The Group has a team reporting to the top management which performs the valuation of the interests in property development required for financial reporting purposes. Discussions of valuation processes and results are held between the top management and the team at least once every six months, in line with the Group's half-yearly reporting dates. The key unobservable market data used in the model includes estimated selling prices of the underlying properties which are derived from observable market data, including average market prices of residential properties in Macau and Mainland China, with certain adjustments to reflect the impacts of those factors on the development. The adjustments to the selling price range from –10% to +10%. The fair value measurement is positively correlated to adjustments to the selling prices of the underlying properties. At 31 December 2016, it is estimated that an increase/decrease of 5% in the selling price of the underlying properties of the Group's interests in property development classified as non-current assets, with all other variables held constant, would have increased/decreased the Group's fair value reserve by $590,851,000/$590,852,000 (2015: $538,446,000/$551,509,000).

The analysis has been determined assuming that the changes in the selling price of the underlying properties had occurred at the end of the reporting period and had been applied to the exposure to property price risk in existence at that date. The analysis has been performed on the same basis as for 2015 and taken into account of the expiration of the land concession as set out in note 2(e).

31 Financial risk management and fair values *(Continued)*

(f) Fair values measurement of financial instruments

Financial assets and liabilities measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, "Fair value measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

	2016 $'000	2015 $'000
Assets		
Level 3		
Interests in property development	**13,338,882**	12,114,871

During the year there were no significant transfers between instruments in Level 1 and Level 2.

The movement during the year in the balance of Level 3 fair value measurements are set out in note 14 to the financial statements.

32 Company-level statement of financial position

	Note	2016 $'000	2016 $'000	2015 $'000	2015 $'000
Non-current assets					
Investment properties			**7,187,000**		7,158,000
Property, plant and equipment			**7,785**		6,411
Interest in subsidiaries			**11,450,469**		14,186,947
Interest in a joint venture			**584,079**		584,079
Interest in an associated company			**1,702,879**		1,979,940
			20,932,212		23,915,377
Current assets					
Loans to subsidiaries		**2,465,794**		2,090,726	
Trade and other receivables		**16,215**		17,870	
Cash and bank balances		**198,990**		52,970	
		2,680,999		2,161,566	
Current liabilities					
Trade and other payables		**112,622**		113,146	
Amounts due to subsidiaries		**9,090**		194	
Amount due to a joint venture		**694,793**		741,841	
Loans from subsidiaries		**1,144,584**		698,565	
Current taxation		**19,774**		7,477	
		1,980,863		1,561,223	
Net current assets			**700,136**		600,343
Total assets less current liabilities			**21,632,348**		24,515,720
Non-current liabilities					
Loan from ultimate holding company		**962,039**		4,572,881	
Loans from subsidiaries		**743,654**		628,462	
Bank loan		**3,500,000**		3,850,000	
Deferred tax liabilities		**45,851**		43,123	
			5,251,544		9,094,466
NET ASSETS			**16,380,804**		15,421,254

32 Company-level statement of financial position *(Continued)*

	Note	**2016** $'000	**2016** $'000	2015 $'000	2015 $'000
Capital and reserves					
Share capital			**8,417,472**		8,417,472
Reserves			**7,963,332**		7,003,782
TOTAL EQUITY	23		**16,380,804**		15,421,254

Approved and authorised for issue by the board of directors on 22 March 2017.

Or Wai Sheun
Director

Lai Ka Fai
Director

33 Parent and ultimate holding company

At 31 December 2016, the Directors consider the parent company and ultimate holding company to be Intellinsight Holdings Limited and Polytec Holdings International Limited, which are both incorporated in the British Virgin Islands. Neither entity produces financial statements available for public use.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, "Statement of cash flows: Disclosure initiative"	1 January 2017
Amendments to HKAS 12, "Income taxes: Recognition of deferred tax assets for unrealised losses"	1 January 2017
HKFRS 9, "Financial instruments"	1 January 2018
HKFRS 15, "Revenue from contracts with customers"	1 January 2018
HKFRS 16, "Leases"	1 January 2019

The adoption of amendments to HKAS 7 and HKAS 12 and HKFRS 16 is unlikely to have a significant impact on the consolidated financial statements. In respect of revenue recognition on sale of completed properties, the current policy is set out in note 1(u). Under HKFRS 15, revenue from sale of goods or provision of services will be recognised when the customer obtains control of the promised good or services in the contract. Management is assessing the impact of the adoption of HKFRS 15 and based on its initial assessment it is expected that its adoption may result in a change of the timing of recognition of revenue arising from sale of completed properties.

In respect of classification of interests in property development, the current policy is set out in note 1(j). Under HKFRS 9, the classification of financial assets is determined based on the entity's business model for managing the asset and the contractual cash flow characteristics of the asset. Management is assessing the impact of the adoption of HKFRS 9 and, based on its initial assessment it is expected that its adoption will result in change in classification of the interests in property development to fair value through profit or loss. This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

Particulars of Properties

31 December 2016

A. Major Investment Properties

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
Pioneer Centre 750 Nathan Road Mongkok	Commercial	Long lease	45,891 sq m and 124 Car Parking Spaces	100.0
20th Floor of Argyle Centre Phase 1 688 Nathan Road and 65 Argyle Street Mongkok	Commercial	Medium-term lease	1,465	100.0
2nd to 23rd Floor and the Roof of The Elgin 51 Elgin Street Central	Residential	Long lease	1,327	100.0
The Whole Shop Spaces on Basement Peninsula Centre 67 Mody Road Tsim Sha Tsui	Commercial	Long lease	1,767 sq m and 10 Car Parking Spaces	100.0
32 Shop Units on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre 582-592 Nathan Road Mongkok	Commercial	Medium-term lease	614	100.0

B. Major Properties Under Development

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong						
35 Clear Water Bay Road Ngau Chi Wan	Residential and Commercial	19,335	196,400	Land premium negotiation in progress	To be determined	100.0
63 Pok Fu Lam Road Sai Ying Pun	Residential and Retail	1,388	12,200	Foundation work in progress	2020	100.0
Upper East 23 Sung On Street Hung Hom	Residential and Commercial	4,038	34,100	Construction work in progress	2018	100.0
1 Lei Yue Mun Path Lei Yue Mun	Residential and Retail	3,240	29,200	Construction work in progress	2019	100.0
Mainland China						
The Gardenia (翠堤灣) West of Daba Road Shenhe District Shenyang	Residential and Commercial	1,100,000	2,000,000	Construction work for the first phase B in progress	First phase B 2017	100.0
Le Cove City (江灣城) 6 Hun Nan Er Road Hun Nan Xin District Shenyang	Residential and Commercial	165,303	712,000	Construction work for the fourth phase in progress	Fourth phase 2018	100.0

B. Major Properties Under Development *(Continued)*

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
Le Cove City (江灣城) Tongyun Road and Gongyun Road Chong An District Wuxi	Residential and Commercial	68,833	404,400	Construction work for the second phase in progress	Second phase 2017	80.0
Le Cove Garden (江灣南岸花園) Dongjiang North Shore Wangjiang Lot Huicheng District Huizhou *(Note)*	Residential and Commercial	146,056	519,900	Construction work for the second phase in progress	Second phase 2018	60.0
Macau						
Pearl Horizon (海一居) Lote P The Orient Pearl District Novos Aterros da Areia Preta *(Note)*	Residential and Commercial	68,000	697,600	Suspended	To be determined	58.8
La Marina (海上居) Lotes T+T1 The Orient Pearl District Novos Aterros da Areia Preta *(Note)*	Residential and Retail	17,900	195,600	Topping-out of superstructure work completed; façade and interior fitting-out works in progress	Mid 2017	58.8

Note:

The development of these properties are under the co-investment agreements with the ultimate holding company and its wholly owned subsidiaries.

C. Investment Properties of Joint Venture

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Macau 208 Shop Units and 208 Office Units The Macau Square Rua do Dr. Pedro Jose Lobo Nos. 2-16A Avenida do Infante D. Henrique Nos. 43-53A and Avenida Doutor Mario Soares Nos. 81-113	Commercial	Short-term lease	36,553 sq m and 265 Car Parking Spaces	36.7

D. Properties Under Development of Joint Venture

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China *The Lake (山語湖)* Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan	Residential and Commercial	4,020,743	1,600,000	Construction work for the fourth phase of high-rise residential towers in progress	Fourth phase of high-rise residential towers 2017	50.0

E. Properties Under Development of Associated Company

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China *City Plaza (城市廣場)* Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin	Residential and Commercial	135,540	850,000 *(Note)*	Certificate of completion for the second phase obtained in December 2016	Third phase to be determined	49.0

Note:

With additional underground gross floor area of approximately 35,000 sq m for the commercial portion.

63 Pok Fu Lam Road

[illegible] located at 63 Pok Fu Lam Road. It [illegible] redevelop[illegible] into two high-end res[illegible]tial towers with [illegible] on the ground floor and car parking spaces [illegible] the base[illegible] floor, cover[illegible] gross floor area of [illegible]imately 12,200 sq m.