Pacific Century Premium Developments
盈科大衍地產發展

STOCK CODE: 00432

ANNUAL REPORT 2017

The name **Pacific Century Premium Developments** signifies the company's sharp focus on the high-end segment of property markets in the region.

In Chinese, the name takes on a more aspirational meaning that invites reflection on the company's origins and progress to the present day, as well as its ambitions for the future.

The structure of the name contains a reference to rivers and streams leading to the sea. According to ancient literature, all such waterways share that destiny and tend to be individually active and dynamic in making their way to the coast, where they finally achieve success together.

The Chinese version of PCPD's name also symbolises vigorous growth into prosperity and can be likened to acorns developing into oak trees, which are well known for their towering size, solid stature and longevity. Interestingly, this analogy is very similar to the popular English saying: 'From tiny acorns do mighty oak trees grow'.

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CORPORATE PROFILE

Majority-owned by PCCW Limited ("PCCW", SEHK: 00008), Pacific Century Premium Developments Limited ("PCPD" or the "Group", SEHK: 00432) is principally engaged in the development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

PROPERTY DEVELOPMENT AND INVESTMENT

PCPD completed its signature Bel-Air Residence project at the end of 2008. This has since become one of the city's most prestigious developments. The Group also developed ONE Pacific Heights, a prime residential project situated in the western part of Hong Kong Island.

The Group continues to explore potential investment opportunities around the world. In line with this strategy, the Group has drawn up long-term plans for the development of world-class all-season resorts in Hokkaido, Japan and Phang-nga, southern Thailand.

The Group enriched its portfolio by acquiring a site located in Sudirman CBD, Jakarta, Indonesia in 2013 and developed into a premium Grade A office building. The building was completed and in operation in the fourth quarter of 2017.

In 2018, the Group will begin a redevelopment project at Nos 3-6 Glenealy, Central, Hong Kong. The project will be transformed into another luxury residential landmark which will lead the Group to further success.

PROPERTY AND ASSET MANAGEMENT

Leveraging on its extensive experience and expertise, the Group provides property and asset management services for various kinds of premises.

STATEMENT FROM THE CHAIRMAN

WE CONSIDER THE REDEVELOPMENT OF THE SITE AT NOS. 3-6 GLENEALY, CENTRAL, HONG KONG, AS A UNIQUE OPPORTUNITY FOR THE GROUP TO DEMONSTRATE ITS STRENGTHS IN DELIVERING EXCELLENT QUALITY WHICH IS IN LINE WITH THE GROUP'S BUSINESS STRATEGIES.

The global economy improved in 2017 and is expected to continue its upward trend in the coming year. While developed economies are likely to experience steady growth, developing economies in Southeast Asia remain the main drivers of global growth in 2018.

With a more positive economic outlook for 2018, the US Federal Reserve agreed to raise its prime interest rate in December 2017 and foreshadowed three additional rate increases in 2018. The recent tax reform advocated by US President Donald Trump took effect from 1 January 2018. It is generally expected that this bill will revive the US economy and the middle class will benefit from that.

Meanwhile, the Bank of England has forecasted the UK economy to undergo a mild downturn over the next two years. As the Group received official notification from the Enfield Council in the UK involving negotiation with the Company as a preferred development partner of the Meridian Water redevelopment project, the management team will review with prudence the feasibility and potential of the project to maximise stable return for our shareholders.

As for the Park Hyatt Niseko Hanazono Residences project in Hokkaido, Japan, the Hong Kong internal sale held in March 2017 and the launch in Tokyo and Singapore in the second half of the year received overwhelming responses. During the year, 52 units were sold/ reserved. PCPD is gearing up to launch the remaining units in several phases in Asia over the next two years as we believe that Niseko in Hokkaido is a gem primed for promising growth.

The construction of Pacific Century Place, Jakarta ("PCP, Jakarta") was substantially completed in the fourth quarter. Majority of the tenants will start their operations at the office space from the beginning of 2018. I am eagerly expecting this project to generate recurring income for the Group soon.

In Hong Kong, the Group will jointly redevelop with CSI Properties Group a prime site at Nos.3-6 Glenealy, Central, Hong Kong, into a high-end, predominantly residential building. We consider this redevelopment as a unique opportunity for the Group to demonstrate its strengths in delivering excellent quality which is in line with the Group's business strategies.

The project in Phang-nga, southern Thailand sees steady progress as PCPD is in discussion with a local developer concerning the first phase construction.

Finally, I would like to take this opportunity to thank our management team and staff members in Hong Kong and overseas for leading PCPD to prosperity and growth.

Richard Li
Chairman

February 5, 2018

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

for the project in Hokkaido, Japan, Park Hyatt Hotel and Branded Residences are expected to be completed in late 2019.

The Group recorded the consolidated revenue of approximately HK$164 million for the financial year ended December 31, 2017. This represented a decrease of approximately 6 per cent compared to the Group's revenue of approximately HK$174 million for 2016.

The Group's consolidated operating loss amounted to approximately HK$288 million for 2017 compared to the consolidated operating loss of approximately HK$357 million for 2016.

The consolidated net loss attributable to equity holders of the Company totalled approximately HK$340 million in 2017 compared to the consolidated loss of approximately HK$364 million for 2016. Basic loss per share was approximately 21.44 Hong Kong cents compared to the basic loss per share of 22.96 Hong Kong cents for 2016.

The Board of Directors has not recommended a final dividend for the year ended December 31, 2017.

The construction of PCP, Jakarta, Indonesia was substantially completed and the premise was taken over by the building management in October 2017. Defect rectification and post-completion work is progressing well to meet the tenants' requests.

Strategically located at Sudirman CBD of Jakarta, the 40-storey premium Grade A office building was granted multiple green ratings and pre-certifications such as LEED Pre-certification Platinum Grade. The award-winning building was considered one of the industry pioneers in promoting sustainability as sustainable design is inherently part of the development. With facilities that reduce construction, operation and consumption wastes, the building will soon become home to world renowned corporations such as Citibank Indonesia, Garena and Sotheby's Hong Kong Limited.

To date, approximately 69 per cent of the office floor space has been reserved or committed. Other companies have also expressed interest in moving their regional headquarters or Indonesia representative offices to the building.

As for the project at Niseko in Hokkaido, Japan, Park Hyatt Hotel and Branded Residences are expected to be completed in late 2019. Successful pre-sales were held in Hong Kong, Japan and Singapore during the year and 52 units on offer have all been sold/reserved. The Group expects to launch the remaining units in several phases in Asia over the next two years.

In early 2018, the Group acquired a prime site at Nos.3-6 Glenealy, Central, Hong Kong. The Group expects to redevelop the site into a high-end, predominantly residential building.

Our project in Phang-nga, Thailand is also proceeding with discussion with a local developer for first phase.

Robert Lee
Deputy Chairman and
Chief Executive Officer

February 5, 2018

KEY BUSINESS STRATEGIES

THE GROUP IS PRINCIPALLY ENGAGED IN THE DEVELOPMENT AND MANAGEMENT OF PREMIUM-GRADE PROPERTY AND INFRASTRUCTURE PROJECTS AS WELL AS PREMIUM-GRADE PROPERTY INVESTMENTS. PCPD AIMS TO CREATE AND ENHANCE VALUE FOR OUR SHAREHOLDERS THROUGH ENGAGING IN DEVELOPMENT PROJECTS, ACQUISITIONS, AND JOINT VENTURES.

For this purpose, we embrace two key business strategies:

1. ***Maintain long-term growth and profitability by developing and investing in premium-grade properties***

   We are proactively seeking suitable premium development projects to generate favourable returns and sustain long-term growth for the Group.

2. ***Enhance our opportunities in real estate markets worldwide by leveraging on our experience, expertise, and brand established in developing and managing luxury residential, resort and hotel properties, and premium-grade buildings***

   We intend to replicate our success and maximize the strengths of our brand through new projects. Approached from time to time by potential strategic partners, we are looking at opportunities to participate in mega projects with the benefit of economies of scale, and to acquire and upgrade existing properties for investment or sale, whether through by way of joint ventures or by setting up real estate funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited ("Company") and its subsidiaries (together with the Company, "Group") for the year ended December 31, 2017 is set out below.

REVIEW OF OPERATIONS

Property investment and development

Property investment in Indonesia

The construction work for PCP, Jakarta, Indonesia, has been substantially completed and taken over by the building management in October 2017. Defect rectification work and post completion work to suit tenants' requests continues progressively.

Strategically located at Sudirman CBD of Jakarta, the 40-storey premium Grade A landmark office building has been awarded several green ratings and pre-certifications in the past few years. The award-winning building is unique for its environmentally friendly features and sustainability concept. The building is expected to welcome the majority of tenants such as Citibank Indonesia, Garena and Sotheby's Hong Kong Limited, to move in from beginning of 2018.

To date, approximately 69 per cent of the office floor space has been reserved or committed. Some multinational corporations have also expressed interests in moving their regional headquarters or Indonesia representative offices to the building.

The Group's gross rental income amounted to approximately HK$3 million for 2017.

Property development in Japan

The Park Hyatt Hotel and Branded Residences at Hanazono in Niseko, Hokkaido, Japan, will be completed in late 2019. The project will comprise 114 luxury units of the first Park Hyatt Residences in Japan. A selection of specialty restaurants, extensive meeting space, a golf clubhouse, a ski shop and valet, a destination spa, a fitness centre and a swimming pool will be available.

In 2017, the Group has arranged several successful pre-sales events in Hong Kong, Japan and Singapore with 52 units have been sold or reserved. We anticipate launching the remaining units in Asia in the next two years.

Property development in Thailand

The preparation of the project in Phang-nga, southern Thailand is continuing as planned. The Group is in discussion with a local developer of the first phase of the project.

Recreation and leisure

All-season recreational activities in Japan

The Group's all-season recreational operation is located in Niseko, Hokkaido, Japan, which is one of the premium ski destinations in the world. Various facilities and recreational activities, including ski lift, ski equipments rental, ski school and snowmobile tours in winter and rafting tours and golfing in summer, are operated by the Group.

The Group's revenue from its all-season recreational activities amounted to approximately HK$96 million for the year ended December 31, 2017, as compared to approximately HK$92 million in 2016.

Property management related services

Property management and facilities management in Hong Kong

The Group provides exceptional property management and facilities management services to its clients in Hong Kong and generated revenue of approximately HK$28 million for the year ended December 31, 2017, as compared to approximately HK$47 million in 2016.

Other businesses

Other businesses of the Group mainly include property management in Japan, property investment in Hong Kong and asset management in Mainland China. The revenue from these other businesses amounted to approximately HK$37 million for the year ended December 31, 2017, as compared to approximately HK$35 million in 2016.

FINANCIAL REVIEW

Review of results

The consolidated revenue of the Group was approximately HK$164 million for the year ended December 31, 2017, representing a decrease of approximately 6 per cent from approximately HK$174 million in 2016.

The decrease was mainly due to the change of contracting model in relation to the provision of facilities management services that contractors are directly engaged by the customer and no contractor cost was chargeable to the customer by the Group starting 2017.

The consolidated gross profit of the Group for the year ended December 31, 2017 was approximately HK$127 million, representing an increase of approximately 8 per cent from approximately HK$118 million in 2016.

The general and administrative expenses were approximately HK$435 million for the year ended December 31, 2017, representing an increase of 4 per cent from approximately HK$418 million in 2016. Such increase was mainly due to increase in staff costs and more marketing expenses and professional fees spent in Park Hyatt Branded Residences at Niseko, Hokkaido, Japan during the year.

The consolidated operating loss for the year ended December 31, 2017 decreased to approximately HK$288 million, as compared to approximately HK$357 million in 2016. Such decrease was mainly due to the one-off fair value loss of the call spread option recognised in 2016.

After taking into account of higher finance costs after US$570 million guaranteed notes issued during the year, the Group recorded a consolidated net loss after taxation of approximately HK$340 million for the year ended December 31, 2017, as compared to approximately HK$364 million in 2016. Basic loss per share during the year under review was 21.44 Hong Kong cents, as compared to basic loss per share of 22.96 Hong Kong cents in 2016.

Current assets and liabilities

As at December 31, 2017, the Group held current assets of approximately HK$4,469 million (December 31, 2016: HK$1,663 million), mainly comprising cash and bank balances, sales proceeds held in stakeholders' accounts, restricted cash and prepayments, deposits and other current assets. The increase in current assets was mainly attributable to the cash and bank balances including cash and cash equivalents and short-term deposits which increased by approximately 319 per cent from approximately HK$871 million as at December 31, 2016 to approximately HK$3,652 million as at December 31, 2017 due to the issue of US$570 million guaranteed notes net off by the repayment of bank borrowings of US$60 million and payment of construction cost of development projects in Indonesia and Japan. Sales proceeds held in stakeholders' accounts amounted to approximately HK$508 million as at December 31, 2017 (December 31, 2016: HK$510 million). The level of restricted cash decreased to approximately HK$98 million as at December 31, 2017 from approximately HK$103 million as at December 31, 2016 as approximately HK$8 million parked in the interest reserve account pledged for the loan drawdown has been released during the year. As at December 31, 2017, the current ratio was 4.91 (December 31, 2016: 1.51).

As at December 31, 2017, the Group's total current liabilities amounted to approximately HK$910 million, as compared to approximately HK$1,102 million as at December 31, 2016. The decrease was mainly due to the repayment of bank borrowings offset by the interest payable for the guaranteed notes, the receipt of deposits from pre-sale of properties and deferred rental income during the year.

Capital structure, liquidity and financial resources

As at December 31, 2017, the Group's borrowings amounted to approximately HK$4,473 million (December 31, 2016: HK$457 million). The carrying amount represented the amortised cost of financial liabilities in respect of the guaranteed notes of US$570 million issued (equivalent to approximately HK$4,454 million) and the principal amount of Japanese Yen ("JPY") 785 million drawdown under the term loan facility of JPY1,500 million (equivalent to approximately HK$104 million).

On January 21, 2014, the Group entered into agreements to obtain loan facilities by which the lenders would make available term loan facilities in the aggregated amount of US$200 million ("USD Facility"). During the year ended December 31, 2017, the loan facility of US$60 million drawdown in 2016 has been fully repaid and such USD Facility has been cancelled.

On March 9, 2017, the Group issued US$570 million 4.75% guaranteed notes ("Notes") due 2022, which are listed on the Singapore Exchange Securities Trading Limited.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On June 9, 2017, the Group entered into a term loan facility agreement with maturity date in December 2028. The aggregate amount of the facility shall not exceed JPY1,500 million (equivalent to approximately HK$104 million), of which JPY715 million (equivalent to approximately HK$50 million) remained undrawn by the Group as at December 31, 2017.

As at December 31, 2017, the net debt-to-equity ratio was 18.4 per cent (December 31, 2016: not applicable). The net debt is calculated from the principal face amount of borrowings of HK$4,508 million less the aggregate of cash and cash equivalents and short-term deposits of HK$3,652 million.

The Group's borrowings were denominated in US dollars and Japanese Yen while cash and bank deposits were held mainly in US dollars and Hong Kong dollars. The Group has foreign operations, and certain of its net assets are exposed to the risk of foreign currency exchange rate fluctuations. As at December 31, 2017, the assets of the Group in Indonesia, Thailand and Japan represented approximately 42 per cent, 6 per cent and 12 per cent of the Group's total assets respectively. The Group's currency exposure with respect to these operations is subject to fluctuations in the exchange rates of Indonesian Rupiah, Thai Baht and Japanese Yen.

Cash used in operating activities for the year ended December 31, 2017 was approximately HK$320 million, as compared to cash used in operating activities of approximately HK$411 million in 2016 as the Group received the deposits from the pre-sale of properties and deferred rental income during the year.

Income tax

The Group's income tax for the year ended December 31, 2017 were approximately HK$26 million, as compared to approximately HK$18 million in 2016. The increase was mainly due to more overseas income tax payment especially in Indonesia.

Security on assets

As at December 31, 2017, certain assets of the Group with an aggregated carrying value of approximately HK$94 million were mortgaged and pledged to the bank as security for the loan facility and short-term performance bond.

The pledged assets and equity interests in companies within the Group with an aggregated carrying value of approximately HK$3,399 million and performance guarantee of approximately HK$161 million as of December 31, 2016 have been released during the year of 2017 subsequent to the repayment and cancellation of the USD Facility.

Events after the reporting date

As disclosed in the joint announcement of PCCW Limited ("PCCW") and the Company dated January 15, 2018 (the "Joint Announcement") in relation to the proposed joint redevelopment of the properties at No. 3-6 Glenealy, Central, Hong Kong (the "Properties") by the Group and CSI Properties Limited, the Company, through its indirect wholly-owned subsidiary (the "Purchaser") will, subject to certain conditions as disclosed in the Joint Announcement, acquire the equity interest of the target group holding the Properties. Under the sale and purchase agreement, the consideration includes cash consideration of HK$2,018 million (subject to adjustments) and the allotment and issue of the non-voting participating share which is entitled to 50 per cent of the dividends declared or distributions by the Purchaser. An initial deposit of HK$100 million was placed with the stakeholder on January 15, 2018. The transaction is expected to be completed in the first half of 2018. For details, please refer to the Joint Announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2017, the Group employed a total number of 769 staff (inclusive of property management staff borne by owners' account) in Hong Kong and overseas. The remuneration policies of the Group are in line with prevailing industry practices. Bonuses are paid on a discretionary basis taking into account factors such as performances of individual employees and the Group's performance as a whole. The Group provides comprehensive employee benefits, including medical insurance, a choice of provident fund or mandatory provident fund as well as training programs. The Group is also a participating member of the PCCW employee share incentive award schemes.

The Company operates a share option scheme which was adopted by its shareholders at the Company's annual general meeting held on May 6, 2015, and became effective on May 7, 2015 following its approval by PCCW's shareholders ("2015 Scheme"). The 2015 Scheme is valid and effective for a period of 10 years commencing on May 7, 2015. Under the 2015 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may, at its absolute discretion, select.

DIVIDENDS AND DISTRIBUTION

The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2017 (2016: Nil).

The Board did not declare an interim dividend to shareholders nor an interim distribution to bonus convertible noteholders for the year ended December 31, 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS AND CLOSURE OF REGISTER OF NOTEHOLDERS

The Company's register of members will be closed from May 3, 2018 to May 9, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on May 2, 2018.

The Company's register of noteholders of bonus convertible notes will be closed from May 3, 2018 to May 9, 2018, both days inclusive, during which period no transfer of bonus convertible notes will be effected. In order to be entitled to attend the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant note certificates, should be lodged with the bonus convertible note registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on May 2, 2018.

OUTLOOK

The global growth momentum we witnessed in 2017 is likely to continue in 2018. Central banks are shifting their policies very carefully. The US Federal Reserve is expected to raise interest rates and further reduce its balance sheet. The reversing of loose monetary policy is in a steady progress.

The Group sees the rising number of tourists visiting Hokkaido. Japan's government is also poised to strengthen its marketing efforts and add fuel to the tourism industry in the next few years. The Group will make the best of this opportunity and launch the remaining units of the Park Hyatt Hotel and Branded Residences in the next two years.

PCP, Jakarta, the Group's premium Grade A office building in Jakarta, Indonesia, was substantially completed and in operation in the fourth quarter. Citibank Indonesia, Sotheby's Hong Kong Limited, and Garena will soon be the occupants from the beginning of 2018. The leasing of the office space is progressing well and we expect the building to generate stable recurring rental income for the Group.

In Hong Kong, residential prices in 2017 increased at the fastest pace in five years and we believe this trend is likely to continue in the year ahead. The Group's redevelopment project at Nos. 3-6 Glenealy, Central will become another landmark project of the Group.

In 2018, we will continue to identify suitable projects and monitor the external environment carefully to create value for our shareholders.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 51, is an Executive Director and the Chairman of Pacific Century Premium Developments Limited ("PCPD"), the Chairman of PCPD's Executive Committee of the Board, a member of PCPD's Remuneration Committee and Nomination Committee of the Board. He became a director of PCPD in May 2004. He also holds positions in the following companies:

(1) Chairman and Executive Director of PCCW Limited ("PCCW");
(2) Chairman of PCCW's Executive Committee;
(3) a member of PCCW's Nomination Committee of the PCCW board;
(4) Executive Chairman and Executive Director of HKT Limited ("HKT") and HKT Management Limited, the trustee-manager of the HKT Trust;
(5) Chairman of HKT's Executive Committee;
(6) a member of HKT's Nomination Committee of the HKT board;
(7) Chairman and Chief Executive of the Pacific Century Group; and
(8) Chairman and Executive Director of Singapore-based Pacific Century Regional Developments Limited ("PCRD"), and the Chairman of PCRD's Executive Committee.

Mr Li is a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

LEE Chi Hong, Robert

Deputy Chairman and
Chief Executive Officer

Mr Lee, aged 66, is an Executive Director, the Deputy Chairman, the Chief Executive Officer of PCPD, a member of PCPD's Executive Committee of the Board and is a Director of certain PCPD subsidiaries. He became a director of PCPD in May 2004. He is also an Executive Director of PCCW and a member of PCCW's Executive Committee and is a Director of certain PCCW subsidiaries.

Mr Lee was previously an Executive Director of Sino Land Company Limited ("Sino Land"), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin. He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. He became a Notary Public in Hong Kong in 1991.

Mr Lee had also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

Mr Lee is a member of the International Council of the Louvre as well as an Ambassador for the Louvre in China.

Mr Lee graduated from Cornell University in the United States in 1975 with a bachelor's degree in Political Science.

James CHAN

Mr Chan, aged 64, is an Executive Director, the Project Director of PCPD, a member of PCPD's Executive Committee of the Board and is a Director of certain PCPD subsidiaries. He became a director of PCPD in August 2005. Mr Chan is responsible for managing various property projects of PCPD and its subsidiaries. He was responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. Mr Chan has become an Independent Non-Executive Director of Beijing Properties (Holdings) Limited since June 2011 and a Non-Executive Director of Viva China Holdings Limited since June 2013.

Prior to joining PCCW in October 2002, Mr Chan was a practising architect and had worked for a major developer in Hong Kong, with comprehensive experience in design, planning and land matters, design development and construction management of major investment properties, which included a wide range of industrial and warehousing, commercial, retail and residential developments in Hong Kong and overseas. Mr Chan possesses a wide spectrum of experience in the real estate industry and has been active in the real estate business for more than 39 years.

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from The University of Hong Kong ("HKU"), a Bachelor of Architecture degree from University of Dundee in Scotland and an Executive Master of Business Administration degree from Tsinghua University. He is qualified as the Authorised Person (List I) and Registered Architect in Hong Kong, and is a member of The Hong Kong Institute of Architects, The Royal Institute of British Architects and The Australian Institute of Architects.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Dr Allan ZEMAN, GBM, GBS, JP

Dr Zeman, aged 69, is a Non-Executive Director of PCPD and the member of PCPD's Nomination Committee of the Board [Note 1]. He became a director of PCPD in June 2004.

Dr Zeman is the Chairman of Lan Kwai Fong Group, a major property owner and developer in Hong Kong's Lan Kwai Fong, one of Hong Kong's popular tourist attractions and entertainment districts. Dr Zeman is also an Independent Non-Executive Director of Sino Land, Tsim Sha Tsui Properties Limited, Global Brands Group Holding Limited, Television Broadcasts Limited and a board member of The "Star" Ferry Company, Limited. Besides all the board appointments in Hong Kong, Dr Zeman is an Independent Non-Executive Director of Wynn Macau, Limited ("Wynn"), a prominent gaming company in Macau and the Non-Executive Chairman of Wynn [Note 2].

Having lived in Hong Kong for over 47 years, Dr Zeman has been very involved in Government services as well as community activities. He is the appointed member of the Economic Development Commission of Hong Kong, a member of the General Committee of the Hong Kong General Chamber of Commerce, a member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong and a member of the Asian Advisory Board of the Richard Ivey School of Business, The University of Western Ontario. In January 2015, Dr Zeman was appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region ("HKSAR Government") to be a Representative of Hong Kong China to the Asia-Pacific Economic Cooperation Business Advisory Council. In June 2015, Dr Zeman was appointed as a board member of the Airport Authority of Hong Kong. Dr Zeman is also a board member of The Hong Kong Entrepreneurs Fund of Alibaba Group which was launched in November 2015. Dr Zeman was the Chairman of Hong Kong Ocean Park from July 2003 to June 2014 and he is now the honorary advisor to the Park.

Dr Zeman is a holder of Honorary Doctorate of Laws Degree from The University of Western Ontario, Canada. He is also a holder of Honorary Doctorate of Business Administration from City University of Hong Kong as well as The Hong Kong University of Science and Technology.

Note 1: Dr Zeman was re-designated as Non-Executive Director of PCPD and from Chairman of PCPD's Nomination Committee of the Board to a member of Nomination Committee, and ceased to be a member of the PCPD's Audit Committee of Board on March 16, 2018.

Note 2: Dr Zeman was re-designated as the Non-Executive Chairman of Wynn on February 7, 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof WONG Yue Chim, Richard, SBS, JP

Prof Wong, aged 65, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Audit Committee of the Board and a member of PCPD's Remuneration Committee and Nomination Committee of the Board. He became a director of PCPD in July 2004.

Prof Wong is a Professor of Economics at HKU. He was awarded the Silver Bauhinia Star in 1999 by the HKSAR Government for his contributions in education, housing, industry and technology development. In addition, Prof Wong was appointed a Justice of the Peace in July 2000. He studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy.

Prof Wong is currently an Independent Non-Executive Director of the following listed companies in Hong Kong:

(1) Great Eagle Holdings Limited;
(2) Orient Overseas (International) Limited; and
(3) Sun Hung Kai Properties Limited.

Prof Wong was an Independent Non-Executive Director of CK Life Sciences Int'l, (Holdings) Inc. from June 2002 to May 2015 and Link Asset Management Limited (the manager of Link Real Estate Investment Trust, a Hong Kong listed company) from September 2007 to July 2016.

CHIANG Yun

Ms Chiang, aged 50, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Remuneration Committee of the Board and a member of PCPD's Audit Committee and Nomination Committee of the Board. She became a director of PCPD in May 2015.

Ms Chiang has over 24 years of private equity investment experience and is now a founding managing partner of Pacific Alliance Equity Partners, the private equity division of Pacific Alliance Group ("PAG"). Prior to joining PAG, she was a vice president in AIG Investment Corporation. She is currently an Independent Non-Executive Director of the following listed companies in Hong Kong:

(1) Sands China Ltd.;
(2) Goodbaby International Holdings Limited;

and an Independent Non-Executive Director of the following listed company in London:

(3) Merlin Entertainments Plc.

Ms Chiang obtained a Bachelor of Science degree, cum laude, from Virginia Polytechnic Institute and State University in 1992 and an Executive Master of Business Administration degree from The Kellogg Graduate School of Management of North-western University and The Hong Kong University of Science and Technology in 1999.

Dr Vince FENG

Dr Feng, aged 45, has become an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Nomination Committee of the Board and a member of PCPD's Audit Committee of the Board with effect from March 16, 2018.

Dr Feng is the Cofounder and Managing Director of Ocean Arete Limited, an investment manager based in Hong Kong that manages the global macro hedge fund Arete Macro Fund. Dr Feng is also a Non-Executive Independent Director of TIH Limited (formerly known as Transpac Industrial Holdings Limited), a listed company in Singapore, where he also serves as Chairman of the Remuneration Committee, and a member of the Audit Committee and Board Investment Committee. Dr Feng also serves as a director of various funds and asset management firms.

Dr Feng has been working in the financial services industry since 1994. Prior to founding Arete Marco Fund in 2012, Dr Feng was a Cofounder and Managing Director of Ocean Capital Management Limited from 2009 to 2010. Dr Feng also has previously served as a Managing Director of General Atlantic LLC, a US$17 billion global private equity firm focused on growth sectors, overseeing their North Asian operations and serving on the boards of numerous technology companies in Greater China, such as Lenovo, Digital China, Ren Ren, Data Systems, and Vimicro. Prior to that, Dr Feng was a financial analyst with Goldman Sachs (Asia) LLC in Hong Kong, working in the Direct Private Investing (formerly PIA) and Mergers and Acquisitions areas.

Dr Feng received his Doctor of Philosophy (PhD) in Economic Sociology and Bachelor of Arts (BA) degree (Honors) in Social Studies, both from Harvard University, and his Master of Business Administration (MBA) degree from Stanford University.

CORPORATE GOVERNANCE REPORT

Pacific Century Premium Developments Limited ("PCPD" or "Company") and its subsidiaries ("Group") have made continued efforts to incorporate the key elements of sound corporate governance into its management structure and internal procedures. The Group is committed to high standards of ethics and integrity in all aspects of business and to ensuring that its affairs are conducted in accordance with applicable laws and regulations and for the benefits and in the interests of shareholders of the Company.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that its affairs are conducted in accordance with applicable laws and regulations.

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") during the year ended December 31, 2017, except for code provision E.1.2 of the CG Code as the Chairman of the Board was unable to attend the Company's annual general meeting held on March 10, 2017 due to an urgent business trip. Mr. Lee Chi Hong, Robert, the Deputy Chairman and Chief Executive Officer of the Company, chaired the annual general meeting pursuant to the Company's Bye-laws and was available to answer questions.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions, namely the PCPD Code of Conduct for Securities Transactions ("PCPD Code"), which applies to all directors and employees of the Company on terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

The Company has made specific enquiries with all the directors of the Company and they confirmed that they had complied with the requirements under the PCPD Code for the year ended December 31, 2017.

BOARD OF DIRECTORS

As disclosed in the announcement of the Company dated March 16, 2018 ("Announcement"), on March 16, 2018, Dr Allan Zeman was re-designated as a non-executive director of the Company, and a member of the nomination committee of the board of directors of the Company ("Board") ("Nomination Committee"), and ceased to be a member of the audit committee of the Board ("Audit Committee"); and Dr Vince Feng was appointed as an independent non-executive director of the Company, the Chairman of the Nomination Committee and a member of the Audit Committee. For details, please refer to the Announcement.

As at the date of the Announcement, the Board comprises three executive directors, one non-executive director and three independent non-executive directors. The biographies of all the directors as of the date of the announcement are set out on pages 14 to 17 of this annual report.

BOARD OF DIRECTORS – CONTINUED

The Board is responsible for the management of the Company. Its key responsibilities include formulation of overall strategies of the Group, setting targets for management and supervision of managements performance. The Board confines itself to making broad policy decisions and exercising its reserved powers, as set out below:

1. those functions and matters as set out in the terms of reference of various committees of the Board for which approval of the Board must be sought from time to time;

2. those functions and matters for which approval of the Board must be sought in accordance with the Group's internal policy;

3. consideration and approval of financial statements in interim reports and annual reports, announcements and press releases of interim and final results;

4. consideration of dividend policy and dividend amount; and

5. monitoring of the corporate governance of the Group in order to ensure compliance with the applicable rules and regulations.

The executive committee of the Board ("Executive Committee") is, under the leadership of the Chairman of the Board, responsible for considering in detail the policy decisions of the Board and implementing such decisions.

Mr Li Tzar Kai, Richard is the Chairman of the Board and Mr Lee Chi Hong, Robert is the Chief Executive Officer of the Company. The role of the Chairman is separated from that of the Chief Executive Officer. The Chairman is responsible for ensuring that the Board functions effectively, for providing leadership for the Board in setting goals and objectives for the Company and for ensuring that good corporate governance practices and procedures are established and enforced. The Chief Executive Officer is responsible for the day-to-day management of the Group's businesses and operations and for ensuring effective implementation of the Group's strategies. Mr Lee Chi Hong, Robert is also the Deputy Chairman of the Board.

All of the directors have full access to all the relevant information and have been furnished with relevant information in a timely manner, including monthly updates from the management, reports from each committee of the Board and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors are also entitled to seek independent professional advice with costs to be borne by the Company.

All directors have confirmed that they have given sufficient time and attention to the Company's affairs. The Company has requested that each director shall disclose to the Company at the time of his/her appointment the number and nature of offices held in public companies or organisations and other significant commitments and with an indication of the time involved and disclose in a timely manner any changes thereto.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS – CONTINUED

The Board has a structured process to evaluate its own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which has been completed by each director. The objectives of the evaluation are to assess whether the Board and the committees, as well as the directors have adequately and effectively performed its/their roles and fulfilled its/their responsibilities; and have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Board and committees continue to operate effectively and that the performance of the directors and time commitment in discharging their duties as directors of the Company for the year ended December 31, 2017 were generally satisfactory.

The directors acknowledge their responsibilities for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profits and cashflows of the Group and which are prepared in accordance with the Hong Kong Financial Reporting Standards, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules. In preparing the financial statements for the year ended December 31, 2017, the directors and the Chief Financial Officer have selected suitable accounting policies and applied them consistently, made judgments and estimates that were prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and prepared the financial statements on a going concern basis. The directors and the Chief Financial Officer are responsible for keeping proper accounting records which would reflect with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 64 to 69.

More than one-third of the members of the Board are independent non-executive directors and hence the requirement under Rule 3.10A of the Listing Rules is complied with. In addition, the qualification and experience of Ms Chiang Yun, one of the independent non-executive directors of the Company, fulfil the requirement under Rule 3.10(2) of the Listing Rules; therefore, the requirement under Rule 3.10 of the Listing Rules is complied with. The Company has received from each of its independent non-executive directors a written confirmation confirming his/her independence to the Company and the Company considers that they are independent in accordance with Rule 3.13 of the Listing Rules.

Each of the non-executive directors of the Company is appointed for a term of two years from the date of his/her appointment or re-election. However, all the directors of the Company are subject to retirement by rotation and re-election at the annual general meeting at least once every three years in accordance with the Bye-laws of the Company and in compliance with the CG Code. The Company has issued formal letters of appointment to its directors setting out the key terms of their appointments as required under the Listing Rules.

Independent non-executive directors are identified in all of the corporate communications in which the names of the directors are disclosed. An updated list of the Company's directors identifying the independent non-executive directors and the role and functions of the directors is maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx").

EXECUTIVE COMMITTEE

The Executive Committee operates as a general management committee with the overall delegated authority from the Board. This ensures that decisions can be taken quickly to enable the Group to seize opportunities in the fast-moving business environment. The Executive Committee is responsible with determining strategies for the group, reviewing trading performance, ensuring adequate funding, examining major investment opportunities and monitoring management performance. The authority and duties of the Executive Committee are set out in writing in its terms of reference.

Current members of the Executive Committee are:

1. Li Tzar Kai, Richard *(Chairman)*

2. Lee Chi Hong, Robert

3. James Chan

REMUNERATION COMMITTEE

The remuneration committee of the Board ("Remuneration Committee") is responsible for ensuring that formal and transparent procedures are in place for developing the remuneration policy of the Company, for overseeing the remuneration packages of individual executive directors and senior management, and for providing effective oversight and administration of the share option scheme of the Company. The authority and duties of the Remuneration Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, and the majority of whom shall be independent non-executive directors; and the chairman of the Remuneration Committee must be an independent non-executive director of the Company. The terms of reference are posted on the websites of the Company and the HKEx.

The Company has adopted the model by which determination of the remuneration packages of individual executive directors and senior management is delegated to the Remuneration Committee. The Remuneration Committee is provided with sufficient resources to perform its duties and can seek advice from remuneration consultants or other independent external professional advisers if necessary.

The Remuneration Committee is chaired by an independent non-executive director. Current members of the Remuneration Committee are:

1. Chiang Yun *(Chairlady)*

2. Li Tzar Kai, Richard

3. Prof Wong Yue Chim, Richard

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE – CONTINUED

The majority of the members of the Remuneration Committee are independent non-executive directors.

In the year ended December 31, 2017, one Remuneration Committee meeting was held. The attendance records of individual directors at the committee meeting is set out in the table on page 31.

The following is a summary of the work performed by the Remuneration Committee in 2017:

A. reviewed the remuneration of certain executive directors for 2017 and approved their 2016 incentive bonus and performance incentives in 2017;

B. reviewed the fees and remuneration of the non-executive directors for 2017 and made recommendations to the Board for such to be approved, if thought fit; and

C. reviewed the terms of reference of the Remuneration Committee and concluded that no revision was required.

Details of the remuneration of each director are set out in the consolidated financial statements on pages 102 to 103.

NOMINATION COMMITTEE

The Nomination Committee is responsible for ensuring that a set of fair and transparent procedures is in place for the appointment and re-appointment of directors to the Board. The authority and duties of the Nomination Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, the majority of whom shall be independent non-executive directors and the chairman of the Nomination Committee can be either the chairman of the Board or an independent non-executive director of the Company. The terms of reference are posted on the websites of the Company and the HKEx.

The Company has formal procedures for the appointment of a new director to the Board, and the appointment process is fair and transparent. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and makes recommendations to the Board on the selection of candidates nominated for directorships and on succession planning for directors. During the process, the Nomination Committee makes the selection of candidate based on merits and with due regard to the benefits of diversity he/she can bring to the Board.

NOMINATION COMMITTEE – CONTINUED

The Board adopted a board diversity policy ("Board Diversity Policy") on February 25, 2013 with the primary objective of enhancing the effectiveness of the Board and the corporate governance standard of the Group. The Company recognises the importance of having a diverse team of board members, which is an essential element in maintaining a competitive advantage. The Nomination Committee has been delegated the authority to review and assess the diversity of the Board by way of considering a number of factors including but not limited to, gender, age, cultural and educational background, and professional experience with an objective of maintaining an appropriate mix and balance of skills, experience and diversity of perspectives on the Board.

The Nomination Committee will review and access the Board Diversity Policy at least annually and make recommendation to the Board regarding appointment and re-appointment of directors. The Nomination Committee will give consideration to the Board Diversity Policy when identifying and selecting suitably qualified candidates.

The Nomination Committee is chaired by an independent non-executive director. The members of the Nomination Committee for the year ended December 31, 2017 were:

1. Dr Allan Zeman (*Chairman*)
2. Li Tzar Kai, Richard
3. Prof Wong Yue Chim, Richard
4. Chiang Yun

As disclosed in the Announcement, current members of the Nomination Committee are:

1. Dr Vince Feng (*Chairman*)
2. Li Tzar Kai, Richard
3. Prof Wong Yue Chim, Richard
4. Dr Allan Zeman
5. Chiang Yun

The majority of the members of the Nomination Committee are independent non-executive directors.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE – CONTINUED

In the year ended December 31, 2017, one Nomination Committee meeting was held. The attendance records of individual directors at the committee meeting is set out in the table on page 31.

The following is a summary of the work performed by the Nomination Committee in 2017:

A. reviewed and assessed the independence of all independent non-executive directors and advised the Board as to which of the directors were due to retire pursuant to the applicable laws of Bermuda, the Bye-laws of the Company and the CG Code and recommended that they be subject to retirement and re-election at the 2017 annual general meeting;

B. annual review of the structure, size and composition (including the skills, knowledge and experience) of the Board based on the Board Diversity Policy according to the Listing Rules; and with a recommendation to the Board for approval; and

C. reviewed the terms of reference of the Nomination Committee and concluded that no revision was required.

At its meeting on February 5, 2018, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and formed the view that the Board has a balance of skills, knowledge and experience which was appropriate for the business of the Company for the year ended December 31, 2017, and had made recommendation to the Board for approval of the same. In performing its duties, the Nomination Committee can seek advice from outside legal counsels or other independent professionals at the Company's expenses if necessary.

AUDIT COMMITTEE

The Audit Committee is responsible for ensuring (i) the objectivity and credibility of the Group's financial reporting; (ii) that the directors have exercised due care, diligence and skills prescribed by law when presenting results to the shareholders; (iii) that effective systems of risk management and internal controls are in place; (iv) that good corporate governance standards and practices are maintained by the Group; and (v) the Company's general compliance with regulatory obligations. The authority and duties of the Audit Committee are set out in writing in its terms of reference which are posted on the websites of the Company and the HKEx.

AUDIT COMMITTEE – CONTINUED

The major duties of the Audit Committee include (i) making recommendation of appointment of the external auditor, compensation and supervision of the external auditor and to ensure the independence of the external auditor by reviewing the fees for audit and non-audit services provided to the Group by the external auditor in accordance with its adopted procedures; and (ii) the maintaining of good corporate governance standards and practices and the whistleblower policy of the Group.

In addition, the Audit Committee will (i) evaluate the adequacy and review the effectiveness of the Company's disclosure controls and processes for financial reporting; (ii) review the design, implementation and monitoring of the Group's risk management and internal control systems on an ongoing basis; (iii) consider the changes in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment; (iv) consider the scope and quality of management's ongoing monitoring of risks and of the internal control systems; and (v) consider significant control failings or weaknesses that have been identified during the period.

The Audit Committee also reviews the Group's financial statements and internal financial reports.

The members of the Audit Committee for the year ended December 31, 2017 were:

1. Prof Wong Yue Chim, Richard *(Chairman)*

2. Dr Allan Zeman

3. Chiang Yun

As disclosed in the Announcement, current members of the Audit Committee are:

1. Prof Wong Yue Chim, Richard *(Chairman)*

2. Chiang Yun

3. Dr Vince Feng

All members of the Audit Committee are independent non-executive directors.

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditor and external auditor and reviews their reports. In the year ended December 31, 2017, two Audit Committee meetings were held. The attendance records of individual directors at the committee meetings is set out in the table on page 31.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE – CONTINUED

The following is a summary of the work performed by the Audit Committee in 2017:

A. reviewed the financial statements of the Company for the year ended December 31, 2016 and the related annual results announcement and auditor's report; and made recommendations to the Board that the same be approved;

B. reviewed the report of the external auditor and made recommendations to the Board for their re-appointment at the 2017 annual general meeting;

C. reviewed the financial statements of the Company for the six months ended June 30, 2017 and the related interim results announcement and made recommendations to the Board that the same be approved;

D. reviewed external auditor's reports to the Audit Committee for the year ended December 31, 2016 and the six months ended June 30, 2017 and their terms of engagement, communications plan and audit plan for the Group for the financial year ended December 31, 2017;

E. reviewed various internal audit reports;

F. reviewed risk management report, corporate governance and control systems and effectiveness of risk management system;

G. introduced a structured process to evaluate performance of all the directors on an annual basis including reviewed the directors' self-evaluation and Board's self-assessment questionnaire;

H. reviewed the terms of reference of the Audit Committee and concluded that no revision was required;

I. reviewed the corporate governance report of the Company for the year ended December 31, 2016;

J. reviewed the fees for audit and non-audit services provided by the external auditor;

K. reviewed the Group's continuing connected transactions and external auditor's report thereon; and

L. met with the external auditor in the absence of management.

In addition, the Audit Committee reviewed the consolidated financial statements for the year ended December 31, 2017 and the related annual results announcement and auditor's report and the corporate governance report, and made recommendation to the Board that the same be approved.

SUSTAINABILITY COMMITTEE

The sustainability committee of the Board ("Sustainability Committee") (formerly known as Corporate Social Responsibility Committee) reports to the senior officers of the Company, including the Chief Executive Officer, the Project Director and the Chief Financial Officer, and the Board. It comprises all department heads or representatives of the Company and head of the Risk Management and Compliance department of the Company's parent company, PCCW Limited.

The Sustainability Committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment. It is also responsible for reviewing the Company's sustainability strategy, principles and policies; setting guidance, direction and overseeing practices and procedures; and monitoring progress on the Company's sustainability and related activities.

EXTERNAL AUDITOR

The external auditor of the Group is PricewaterhouseCoopers. During the year ended December 31, 2017, the total fees in respect of audit and non-audit services provided by PricewaterhouseCoopers (which for this purpose included any entity that is under the common control, ownership or management of the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm, either nationally or internationally) amounted to approximately HK$7.1 million.

The significant non-audit services covered by these fees included the following:

Nature of service	Fees paid (HK$ million)
Non-statutory review services	2.5

CORPORATE GOVERNANCE REPORT

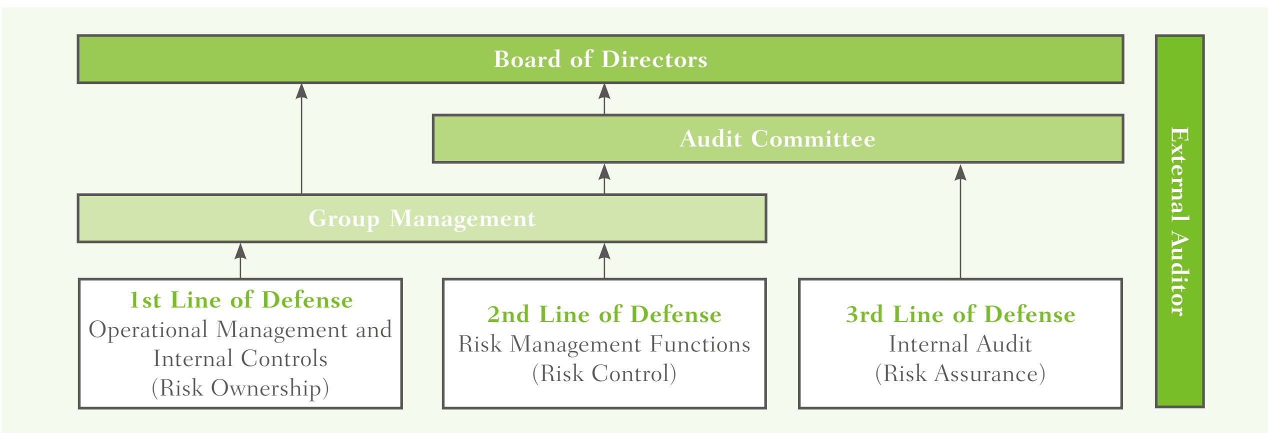
RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

The Group has established an organizational structure with defined levels of responsibility and reporting procedures. The Risk Management and Compliance department and Group Internal Audit assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through the Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance.

Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:



The Risk Management and Compliance department, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management and Compliance department on a half-yearly basis.

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

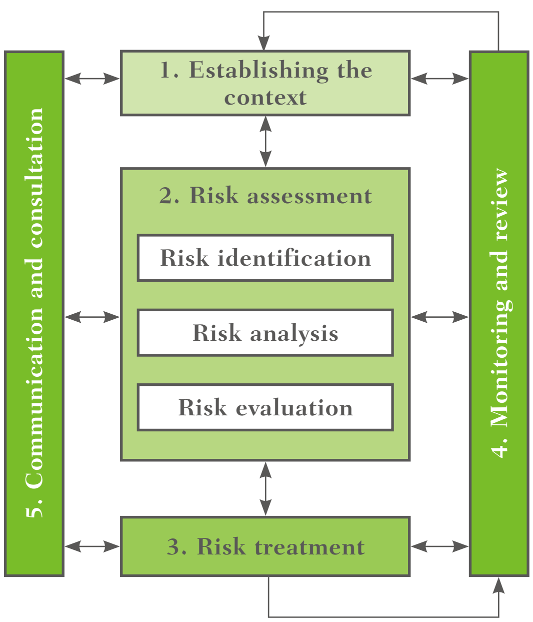
Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material weaknesses in those controls.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee periodically.

Group Internal Audit provides independent assurance to the Board, the Audit Committee and the executive management of the Group on the adequacy and effectiveness of internal controls for the Group. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee, the Chief Executive Officer and the Chief Financial Officer of the Group.

The senior management of the Group, supported by the Risk Management and Compliance department and Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and/or the Audit Committee on the effectiveness of these systems.

The Group adopts the principles of ISO 31000:2009 Risk Management – Principles and Guidelines as its approach to manage its business and operational risks. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



1	Risk Management and Compliance department establishes common risk language and risk assessment criteria for the Group.
2	Business Units identify the risks which may potentially impact the achievement of their business objectives, and analyze and evaluate the significance of such risks.
3	Business Units assess the adequacy of existing controls, determine and implement treatment plans where risk mitigants are actionable.
4	Business Units monitor risk mitigating activities.
5	Risk Management and Compliance department tracks the progress of risk mitigating activities; reports the consolidated view of risks regularly to Audit Committee and other committees as appropriate; and share risk knowledge across Business Units to enhance the risk management standard of the Group. Group Internal Audit reports regularly to the Board to provide independent assurance on the effectiveness of risk management function.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

The Group has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Group and its business practices in the future.

The Group has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company will review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the Head of Group Internal Audit to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to them for consideration by the Audit Committee.

The Group regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

During 2017, the Risk Management and Compliance department has worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management and Compliance department has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

During 2017, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions of the Group were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

ATTENDANCE AT MEETINGS

All directors actively participate in the Company's business. The attendance records of all directors for the Board meetings, meetings of the Board committees and annual general meeting during the year ended December 31, 2017 are set out below:

	Meetings attended/held in 2017				
Directors	**Board Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Remuneration Committee Meeting**	**Annual General Meeting**
Executive directors					
Li Tzar Kai, Richard	4/5	N/A	1/1	1/1	0/1
Lee Chi Hong, Robert	5/5	N/A	N/A	N/A	1/1
James Chan	5/5	N/A	N/A	N/A	1/1
Independent non-executive directors					
Prof Wong Yue Chim, Richard	5/5	2/2	1/1	1/1	0/1
Dr Allan Zeman	5/5	2/2	1/1	N/A	1/1
Chiang Yun	5/5	2/2	1/1	1/1	0/1

CORPORATE GOVERNANCE REPORT

TRAINING AND SUPPORT FOR DIRECTORS

During the year, all directors received regular updates and presentations on the developments of the Group's business and important amendments to the Listing Rules and other applicable regulatory requirements. These updates aim at enhancing directors' knowledge and skills; and assisting them to comply with good corporate governance practices. The current directors of the Company, namely, Li Tzar Kai, Richard, Lee Chi Hong, Robert, James Chan, Prof Wong Yue Chim, Richard, Dr Allan Zeman and Chiang Yun had attended training sessions organized by the Company or its holding company or other professional parties and had provided their training records to the company secretary.

COMPANY SECRETARY

During the year ended December 31, 2017, the company secretary of the Company is Mr Tsang Sai Chung who had taken more than 15 hours of relevant professional training.

All directors have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, for advising the Board on all corporate governance matters, and for arranging induction programs including briefings on the general and specific duties of directors under legal and regulatory requirements for newly appointed directors. The company secretary facilitates the induction and professional development of directors.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company is committed to promoting and maintaining effective communication with the shareholders and other stakeholders. A Shareholders Communication Policy has been adopted for ensuring the Company provides the shareholders and the investment community with appropriate and timely information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company's website (www.pcpd.com).

The Company encourages two-way communication with both institutional and private investors. Information on the activities of the Company is provided in the interim reports and annual reports as well as on the websites of the Company and the HKEx. There are regular dialogues between institutional investors and the Company. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and they are dealt with in an informative and timely manner. Relevant contact information is provided on page 156 of this annual report.

SHAREHOLDERS' RIGHTS

1. *Procedures by which shareholders can convene a special general meeting*

Pursuant to the Bye-laws of the Company, the Board shall, on the requisition in writing of the shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, proceed to call a special general meeting for the transaction of any business specified in such requisition ("Requisition"). The Requisition must state the purposes of the general meeting, be signed by the shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those shareholders. A special general meeting must be held within two months after deposit of the Requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such special general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda ("Act").

2. *Procedures by which enquiries may be put to the Board*

Shareholders may, at any time, direct enquiries to the Board. Such enquiries can be addressed to the company secretary in writing by mail to the Company's principal place of business in Hong Kong at 8th Floor, Cyberport 2, 100 Cyberport Road, Hong Kong ("Hong Kong Principal Office").

3. *Procedures for putting forward proposals at general meetings*

To put forward a proposal at a shareholders' meeting, shareholders are requested to follow the requirements and procedures as set out in the Bye-laws of the Company and the Act.

Pursuant to the Act, shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at the general meeting; or (ii) not less than 100 shareholders, can submit a written request stating the resolution intended to be moved at the annual general meeting; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The written request/statements must be signed by the shareholder(s) concerned and deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton, HM11 Bermuda ("Registered Office") and its Hong Kong Principal Office, for the attention of the company secretary, not less than six weeks before the annual general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the company secretary will take necessary actions pursuant to the Act.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS – CONTINUED

4. *Procedures for shareholders to propose a person for election as a Director*

Pursuant to the Bye-laws of the Company, if a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment or election of director(s), wishes to propose a person (other than a retiring director and the shareholder himself/herself) for election as a director at that general meeting, such shareholder can deposit a notice in writing of the intention to propose that person for election as a director and a notice in writing by that person of his willingness to be elected at the Company's Registered Office or the Hong Kong Principal Office at least seven days before the date of the general meeting. The period for lodging such notice will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and no later than seven days prior to the date of such meeting.

If a shareholder wishes to nominate a person to stand for election as a director, the following documents must be validly served on the company secretary, namely (i) notice of intention to propose a resolution to elect a person as a director ("Nominated Candidate") at the general meeting; (ii) notice in writing executed by the Nominated Candidate of his/her willingness to be elected; and (iii) the information as required to be disclosed under Rule 13.51(2) of the Listing Rules and such other information as required by the Listing Rules and the Bye-laws of the Company from time to time.

On behalf of the Board

TSANG Sai Chung
Company Secretary

Hong Kong, February 5, 2018

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The board of directors of Pacific Century Premium Developments Limited ("Company") ("Board") presented its annual report together with the audited consolidated financial statements of the Company and its subsidiaries ("Group") for the year ended December 31, 2017.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

Details of segment information are set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

A review of the businesses of the Group during the year, a discussion on the Group's future business development and an analysis of the Group's performance during the year using financial key performance indicators are provided in the Statement from the Chairman on pages 4 to 5, the Statement from the Chief Executive Officer on pages 6 to 7 and the Management's Discussion and Analysis on pages 10 to 13 of this annual report and notes 33 and 34 to the consolidated financial statements.

Description of the principal risks and uncertainties that the Group faces and the Group's environmental policies and performances, relationships with its key stakeholders and compliance with laws and regulations which have a significant impact on the Group are set out below.

Principal Risks and Uncertainties

The directors are aware that the Group is exposed to various risks, including some which are specific to the Group or the property development industries in which the Group operates as well as others that are common to most if not all other businesses. The Group has been following the risk management policy of its parent company, PCCW Limited ("PCCW"), to ensure that significant risks which may adversely affect the Group's performance and ability to deliver on its strategies, as well as those which may present positive opportunities, are identified, reported, monitored and managed on a continuous basis.

The following list out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgement or consult their own investment advisors before making any investment in the securities of the Company.

BUSINESS REVIEW – CONTINUED

Principal Risks and Uncertainties – Continued

Market Risk

The Group has completed the construction of commercial property in Indonesia and moves to leasing and operation stage. It is largely subject to the risks associated to Indonesia's competition and uncertainties of the economy.

A substantial part of the Group's revenue is derived from Japan and Hong Kong. As a result, the general state of the monetary policies including taxation in Mainland China, Japan and Hong Kong, the changes in economy, legislative, regulatory and government policies and regional political conditions in these areas, the tourist markets and the climate change for the skiing activities in Japan, could have significant impact to the Group's operating results and financial conditions.

People Risk

The Group's success and ability to grow depends largely on its ability to attract, train, retain and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating and technical personnel. The loss of key personnel, or the inability to find qualified personnel for replacement, could materially and adversely affect the Group's prospects and results of operations.

Regulatory and Operational Compliance Risk

The Group operates in markets and industries which require compliance with numerous licenses, local laws and regulations, which relate to aspects including but not limited to competition, anti-trust, personal data security, property management and construction. In addition, the Group also operates in countries where the Group is required to adhere to various requirements according to the local authorities and central banks' regulations.

Geopolitical Risk

The Group may also be exposed to the risks of foreign policy changes, foreign currency fluctuations, territorial disputes, interest rate changes, demand-supply imbalance, terrorism, the overall economic conditions, the availability of credit and the cost of borrowing, which may pose an adverse impact on the Group's businesses.

The Group maintains good banking relationship to ensure sufficient credit is available to meet its new projects and operating requirements.

For details of the Group's financial management policies and strategies in managing its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, please refer to note 33 to the consolidated financial statements.

REPORT OF THE DIRECTORS

BUSINESS REVIEW – CONTINUED

Principal Risks and Uncertainties – Continued

Construction Risk

The time and costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labour; adverse weather conditions; natural disasters; labour disputes with contractors and subcontractors; accidents; changes in government priorities; and other unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project, which may result in cost overruns and potential disputes and claims from service recipients. This may also result in the profit on development for a particular property not being recognised in the year in which it was originally anticipated to be recognised.

Environmental Policies and Performances

The Group has established its Sustainability Committee and adopted its own Sustainability Policy which includes its environmental policy:

- Strive to achieve green building certification for all our new developments;
- Identify significant environmental impacts associated with our activities, adopt measures to manage and minimise the environmental impacts during design, construction and operation of all our properties;
- Reduce energy consumption and enhance energy efficiency in our properties;
- Minimise waste generated by our operations, and ensure that waste is reused or recycled as much as possible, with the disposal of any remaining waste occurring in a responsible manner;
- Ensure that we operate in a way that exceeds the standard imposed by legal requirements, and integrate industry environmental best practices;
- Monitor and measure our progress and set targets to continually improve our environmental performance.

For its property development projects, the Group aims to develop green buildings by meeting internationally-recognised standards in environmental protection and sustainable development through the adoption of energy-efficient building designs, efficient use of materials in construction and environmental management plan during site operation. Further to the pre-certification of LEED Platinum Grade and Greenship Platinum Grade awarded by U.S. Green Building Council and Green Building Council Indonesia (GBCI) respectively, PCP, Jakarta, the Group's major office building project in Jakarta was named as Highly Commended Best Office Architectural Design in the Indonesia Property Awards 2016. To recognise the contribution in promoting green building and sustainability to the local industry, PT Prima Bangun Investama (the local subsidiary company of PCPD in Indonesia) was also elected as the Winner of the Special Recognition in Sustainable Development in the same event.

BUSINESS REVIEW – CONTINUED

Environmental Policies and Performances – Continued

Our Environment

The Group's property management division in Hong Kong has been accredited the ISO 14001 since 2005 and its Integrated Management System has highlighted the environmental targets under ISO 14001 Environmental Management System. To promote environmental awareness with the business partners, regular assessment of on-list contractors with environmental contribution being one of the criteria, higher priority is given for contractors possessing ISO 14001 certification.

The effectiveness is sustained by the accreditations of Water Supplies Department's Quality Water Supply Scheme For Buildings – Fresh Water (Plus) (Basic Plan), Flushing Water complies with the standard of the Quality Water Supply Scheme For Buildings – Flush Water; Environmental Protection Department's Indoor Air Quality Certificate (Good Class); Environmental Campaign Committee's Hong Kong Green Organisation Certification – "Excellence Level" Wastewi$e Certificate, "Excellence Level" IAQwi$e Certificate, "Excellence Level" Energywi$e Certificate and Carbon Reduction Certificate, Hong Kong Environmental Protection Association's Hong Kong Green Mark – Tree Conservation Scheme 2017, Charter on External Lighting – Platinum Award by Environmental Bureau, FoodEver Waste Never Award (Gold Class) funded by the Environmental Campaign Committee and co-organised by the Hong Kong Women Professionals & Enterpreneurs Association (HKWPEA) and the Hong Kong Productivity Council, Hong Kong Q-Mark Council Federation of Hong Kong Industries' Hong Kong Green Mark Certification Scheme Certificate, and Hong Kong Management Association's 2016/17 Hong Kong Sustainability Award – Certificate of Excellence.

Apart from the recognitions for its efforts in promoting sustainable community, throughout the past years it has put in place many green initiatives in areas of waste recycling, and reduction in emission and waste by signing of environmental protection charters such as Energy Saving Charter on "No ILB" by Electrical and Mechanical Services Department and Environmental Bureau; Food Wise Charter by Food Wise Hong Kong; Use Less, Waste Less in My Hands Charter by Environmental Protection Department; Food Wise Eateries by Environmental Protection Department; Energy Saving Charter 2016 on Indoor Temperature by Environmental Bureau and Electrical and Mechanical Services Department.

REPORT OF THE DIRECTORS

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders

The Group is committed to operating in a sustainable manner while balancing the interest of various stakeholders including our employees, customers, suppliers, business partners and the community.

Relationships with employees

The Group considers its employees the key to sustainable business growth and is committed to providing all employees a safe and harassment-free work environment with equal opportunities in relation to employment, reward management, training and career development. Workplace safety is a priority of the Group. The Group is keen in ensuring health and safety measures are followed while in the performance of duties by our employees as a result reducing total lost days to work injuries. The Group has in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For continuous development, the Group offers job-related trainings and provides sponsorship/subsidies to employees who are committed to personal development and learning.

The Group's property management division in Hong Kong received three awards from 2015/16 Family-Friendly Employers Award Scheme organised by Family Council, which include (1) Family-Friendly Employers 2015/16; (2) Special Mention 2015/16; and (3) Awards for Breastfeeding Support 2015/16. This achievement underlines our commitment to family-friendly employment policies and practices, also devotion in creating a better working environment.

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders – Continued

Relationships with customers

Save as disclosed in the Management's Discussion and Analysis, one of the major sources of revenue for the Group is ownership and operation of a ski and golf resort, property management and holiday letting business in Niseko, Hokkaido of Japan. The Group offers a complete all-season holiday solution for discerning guests, offering a complete suite of resort services including ski-lifting, snow-sports and guiding schools, specialty retail, equipment rental, restaurant operations, golf and white water rafting activities. Renowned for its consistent deep powder snow, Niseko has become a magnet for international ski tourists from across the globe. Tourists to Niseko now make up some 70 per cent of winter visitation to the area, with international visitors accounting for 24 per cent of the total. Embracing the mix of different cultures and languages, the business division works closely and collaboratively with government agencies at all levels and continues to maintain important strategic working relationships with all local Japanese companies. The Group aims to offer a safe, diverse, interesting and culturally sensitive experience for all levels of customers, no matter families, children, elders or sports enthusiasts. Whether in winter season or in summer season, the Group is committed to providing Niseko's finest holiday experience, one that delivers a standard of year-round service and quality to guests which surpasses that of all other service providers in Niseko attracts new customers through genuine referral just as much as marketing, and compels people to experience the Group's services and activities not just once, but time and time again.

For the property management and facilities management services in Hong Kong, the property management division has developed various channels to communicate with residents in order to build a better customer experience from Bel-Air hotline, mobile apps, electronic mail to website (www.bel-air-hk.com). Residents are also encouraged to visit the concierge counters at different tower lobbies, service centres or club houses to express their valuable opinions and suggestions.

To enhance its service quality, customer satisfaction survey is conducted every year so as to help ISPML understand residents' views on its services and to ensure that the services could meet the residents' expectations. Regular meetings with Owner's Committee and sub-committee members are held to discuss the estate issues and the ways that the property management division can further improve its service standard. Residents' opinions and suggestions are considered as valuable assets. As such, the property management division would study the feasibility of each suggestion made by the aforesaid committees. All residents' feedbacks would be responded in a timely manner.

REPORT OF THE DIRECTORS

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders – Continued

Relationships with suppliers and contractors

The Group is committed to delivering prestigious high quality sustainable development projects. It is imperative that suppliers and contractors share the same vision and mission. The Group adopts a partnership approach to solicit the commitments of the stakeholders to create the all-win situation. A procedure has also been established to ensure that procurement process is fair and transparent. Procedures are also put in place to monitor and audit the deliverables from suppliers and contractors and there are adequate channels to provide feedback to them.

Relationships with community

As a responsible corporate citizen, PCPD has been sponsoring and co-organising charitable events in Hong Kong. The Group has participated the "Business-School Partnership Programme" organized by Hong Kong General Chamber of Commerce. Students and teachers from Heep Yunn School were invited to join a career talk on May 10, 2017 to learn about the career path and job opportunities in the property management industry and that was followed by a guided tour to the club house of Residence Bel-Air.

In 2017, PCPD voluntarily disclosed its carbon footprint data for inclusion into the Environmental Protection Department's Carbon Footprint Repository.

ISPML, the property management division has been awarded the Caring Company Logo for 10th consecutive years in recognition of its efforts to promote building a cohesive society through strategic partnership with non-profitable organisations and social enterprises. During the reporting period, its volunteer team participated and co-organised a number of community service events such as territory-wide Flag Day for New Life Psychiatric Rehabilitation Association, Mooncake Donation Program by the Salvation Army, Hong Kong and Macau Command, Small Household Appliances Recycling for the Tung Wah Group of Hospitals Jockey Club Rehabilitation Complex, Christmas Toys Recycling for Toy Bank of YMCA and Christmas Volunteer Visit at New Life Psychiatric Rehabilitation Association etc.

BUSINESS REVIEW – CONTINUED

Compliance with Laws and Regulations

Among the principal activities of the Group is property management in Hong Kong. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have significant impact on the property management industry; any changes in the applicable laws, rules and regulations affecting property management are brought to the attention of relevant employees and relevant operation teams from time to time. The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and the guidelines issued by the Office of the Privacy Commissioner for Personal Data.

In Japan, the Group operates all-season recreational activities for customers and manages the related facility and assets, including operating and maintaining ski lifts, and also engages in property management and property development businesses. The operating vehicles in Japan hold the required licences for the business activities they carry out. The local management team checks to ensure that the subsidiaries in Japan have complied with the applicable local laws and regulations for their principal business activities, such as the Railway Business Act, National Parks Law, Food Hygiene Law, Real Estate Law and Hotel & Ryokan Management Law in Japan.

As for the Group's property development in Indonesia and Thailand, the Group complies with the applicable laws and regulations governing property development, including planning, construction, lease and/or sales, and property management, implemented by the relevant government bodies.

Other Corporate and Administrative Requirements

The Group is also subject to various corporate and administrative requirements under other laws and regulations such as the Companies Ordinance (Cap. 622), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and the Employment Ordinance. Through various internal controls and approval procedures that are in place, the Company seeks to ensure the compliance with these requirements.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2017 are set out in the accompanying consolidated statement of comprehensive income on page 70.

For the year ended December 31, 2017, the Board did not declare any interim dividend to shareholders nor any interim distribution to bonus convertible noteholders (2016: Nil). The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2017 (2016: Nil).

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 152.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in note 19 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties under development/held for development and held for investment purposes are set out on pages 153 to 155.

BORROWINGS

Particulars of the borrowings of the Group are set out in note 21 to the consolidated financial statements.

SHARES ISSUED

There were no new shares of the Company issued during the year ended December 31, 2017

Details of shares issued by the Company during the year are set out in note 23 to the consolidated financial statements.

DEBENTURES ISSUED

During the year, US$570 million 4.75% guaranteed notes due 2022 (the "2022 Bonds") were issued by PCPD Capital Limited ("PCPD Capital"), an indirect wholly owned subsidiary of the Company, at a price of 100% of the principal amount with net proceeds of US$565.2 million (approximately HK$4,390.6 million) for servicing general corporate debt and general corporate purposes of the Group.

DISTRIBUTABLE RESERVES

As at December 31, 2017, the Company's reserves available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK$4,437 million (2016: HK$4,442 million).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2017, the aggregate sales attributable to the Group's five largest customers represented less than 30 per cent of the Group's total sales.

For the year ended December 31, 2017, the aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 59.29 per cent of the Group's total purchases, while the purchases attributable to the largest supplier for the Group accounted for approximately 26.48 per cent of the Group's total purchases. As at December 31, 2017, none of the directors of the Company, their close associates nor any shareholder which to the knowledge of the directors own more than 5 per cent of the issued shares of the Company had any beneficial interest in the Group's major suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company who have held office during the year and up to the date of this report are:

Executive Directors

Li Tzar Kai, Richard *(Chairman)*
Lee Chi Hong, Robert *(Deputy Chairman and Chief Executive Officer)*
James Chan

Independent Non-Executive Directors

Prof Wong Yue Chim, Richard, SBS, JP
Dr Allan Zeman, GBM, GBS, JP
Chiang Yun

As disclosed in the announcement dated March 16, 2018, the directors of the Company who held office as at March 16, 2018 are:

Executive Directors

Li Tzar Kai, Richard *(Chairman)*
Lee Chi Hong, Robert *(Deputy Chairman and Chief Executive Officer)*
James Chan

Non-Executive Director

Dr Allan Zeman, GBM, GBS, JP

Independent Non-Executive Directors

Prof Wong Yue Chim, Richard, SBS, JP
Chiang Yun
Dr Vince Feng

In accordance with bye-law 86(2) of the Bye-laws of the Company, Dr. Vince Feng will retire at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

In accordance with bye-law 87 of the Bye-laws of the Company and the appointment for a term of two years for each of the non-executive directors, Prof. Wong Yue Chim, Richard, Dr. Allan Zeman and Ms. Chiang Yun, who were re-elected as directors at the annual general meeting in 2016, will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the directors of the Company are set out in the Board of Directors on pages 14 to 17.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors a written confirmation of his/her independence for the year confirming his/her independence to the Company; and the Company considers that they are independent based on the terms of the independence guidelines as set out in Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has with the Group an unexpired service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES

As at December 31, 2017, the directors and the chief executives of the Company and their respective close associates had the following interests and short positions in the shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept under Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules:

1. The Company

As at December 31, 2017, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in the shares or underlying shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

2. Associated Corporations of the Company

A. Interests in PCCW

The table below sets out the aggregate long positions of the directors and the chief executives of the Company in the shares of PCCW, the ultimate holding company of the Company, as at December 31, 2017:

	Number of ordinary shares held					Approximate percentage of the total number
Name of director/ chief executive	Personal interests	Family interests	Corporate interests	Other interests	Total	of shares of PCCW in issue
Li Tzar Kai, Richard	—	—	307,694,369 *(Note I(a))*	1,928,842,224 *(Note I(b))*	2,236,536,593	28.97%
Lee Chi Hong, Robert	992,600 *(Note II(a))*	511 *(Note II(b))*	—	—	993,111	0.01%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company – Continued

A. Interests in PCCW – Continued

Notes:

I. (a) Of these shares of PCCW, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 269,471,956 shares and Eisner Investments Limited ("Eisner") held 38,222,413 shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

(b) These interests represented:

(i) a deemed interest in 175,312,270 shares of PCCW held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 175,312,270 shares of PCCW held by PCGH; and

(ii) a deemed interest in 1,753,529,954 shares of PCCW held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 88.58% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,753,529,954 shares of PCCW held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.

II. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.

(b) These shares were held by the spouse of Lee Chi Hong, Robert.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company – Continued

B. Interests in the HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the share stapled units ("Share Stapled Units") jointly issued by HKT Trust and HKT Limited, an associated corporation of the Company, held by the directors and the chief executives of the Company as at December 31, 2017:

Name of director/ chief executive	Number of Share Stapled Units held Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Share Stapled Units in issue
Li Tzar Kai, Richard	—	—	66,247,614 *(Note I(a))*	144,786,423 *(Note I(b))*	211,034,037	2.79%
Lee Chi Hong, Robert	50,924 *(Note II(a))*	25 *(Note II(b))*	—	—	50,949	0.0007%

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in HKT Limited ("HKT"); and

(b) one voting preference share of HK$0.0005 in HKT,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the trust deed dated November 7, 2011 constituting the HKT Trust entered into between HKT Management Limited (in its capacity as the trustee-manager of the HKT Trust) and HKT as supplemented, amended or substituted from time to time and the amended and restated articles of association of HKT, the number of ordinary shares and preference shares of HKT in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company – Continued

B. Interests in the HKT Trust and HKT Limited – Continued

Notes:

I. (a) Of these Share Stapled Units, PCD held 20,227,614 Share Stapled Units and Eisner held 46,020,000 Share Stapled Units.

(b) These interests represented

(i) a deemed interest in 13,159,619 Share Stapled Units held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH; and

(ii) a deemed interest in 131,626,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 131,626,804 Share Stapled Units held by PCRD.

II. (a) These Share Stapled Units were held jointly by Lee Chi Hong, Robert and his spouse.

(b) These Share Stapled Units were held by the spouse of Lee Chi Hong, Robert.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company – Continued

C. Interest in PCPD Capital

The table below sets out the aggregate long position in the 2022 Bonds issued by PCPD Capital, an associated corporation of the Company, held by the directors and the chief executives of the Company as at December 31, 2017:

	Principal amount of the 2022 Bonds held (US$)				
Name of director/ chief executive	Personal interests	Family interests	Corporate interests	Other interests	Total
Li Tzar Kai, Richard	—	—	70,000,000 *(Note I)*	—	70,000,000
Lee Chi Hong, Robert	2,250,000 *(Note II)*	—	—	—	2,250,000

Notes:

I. These 2022 Bonds were held by Ultimate Talent Limited, a wholly-owned subsidiary of Elderfield Limited ("Elderfield"). Li Tzar Kai, Richard owned 100% of the issued share capital of Elderfield.

II. These 2022 Bonds were held jointly by Lee Chi Hong, Robert and his spouse.

Save as disclosed in the foregoing, as at December 31, 2017, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company operates a share option scheme which was adopted by its shareholders at the Company's annual general meeting held on May 6, 2015, and became effective on May 7, 2015 following its approval by PCCW's shareholders ("2015 Scheme"). The 2015 Scheme is valid and effective for a period of 10 years commencing on May 7, 2015. Under the 2015 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may select at its absolute discretion. The major terms of the 2015 Scheme are set out below:

(1) The purpose of the 2015 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

(2) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the Group or any member of it, whether in full time or part time employment of the Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the Group or any member of it, and any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2015 Scheme.

(3) The maximum number of shares of the Company in respect of which options may be granted under the 2015 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of adoption of the 2015 Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and other share option schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. As at the date of this annual report, the total number of shares of the Company available for issue in respect of which options may be granted under the 2015 Scheme is 40,266,831, representing approximately 10% of the shares of the Company in issue as at that date.

REPORT OF THE DIRECTORS

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES – CONTINUED

(4) The total number of shares of the Company issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2015 Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the shares of the Company in issue and HK$5 million in aggregate value based on the closing price of the shares of the Company on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at general meeting.

(5) The 2015 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2015 Scheme shall be determined by the Board, provided that such terms and conditions shall not be inconsistent with the 2015 Scheme and no option may be exercised 10 years after the date of grant.

(6) The 2015 Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.

(7) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares of the Company on the Stock Exchange.

(8) Subject to early termination by resolution in general meeting or the Board, the 2015 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2015 Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2015 Scheme since its adoption and up to December 31, 2017.

Save as disclosed above, at no time during the year under review was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executives of the Company or their spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the year under review.

EQUITY-LINKED AGREEMENTS

Share Option Scheme

Details of the share option scheme of the Company are set out in the section headed "Share Options and Directors' Rights to Acquire Shares or Debentures" above and note 25 to the consolidated financial statements.

Bonus Convertible Notes

As a result of the issue of bonus convertible notes in the aggregate amount of HK$592,572,154.40 convertible into a total of 1,185,144,308 shares of the Company at a conversion price of HK$0.50 per share (after adjustment made as a consequence of a share consolidation of the Company which became effective on June 25, 2012) in 2012, up to December 31, 2017, bonus convertible notes in the aggregate amount of HK$18,800.00 (December 31, 2016: HK$18,800.00) were converted into 37,600 shares (December 31, 2016: 37,600 shares) of the Company at the conversion price of HK$0.50 per share. As at December 31, 2017, the Company's outstanding bonus convertible notes were in the aggregate amount of HK$592,553,354.40 convertible into a total of 1,185,106,708 shares of the Company at the conversion price of HK$0.50 per share. The bonus convertible notes can be converted into shares of the Company at any time provided that the Company's minimum public float requirements under the Listing Rules could be complied with.

Supporting Agreement and Investor Agreements

On May 23, 2013, the Group entered into a supporting agreement ("Supporting Agreement") with ACE Equity Holdings Limited ("Supporter"), whereby the Group will settle part of the services received in the value of US$23 million by means of, among other things, issuing non-voting, non-contributory but dividend participating class B shares ("Melati Class B Shares") representing not more than 6.388 per cent of the share capital of the Company's indirect wholly-owned subsidiary, Melati Holding Limited ("Melati"), to the Supporter. The Group also granted a put option to the Supporter to require the Group to purchase all the Melati Class B Shares after the expiry of 5 years from the date of issue of the shares based on then consolidated net asset value of Melati and its subsidiaries.

On May 23, 2013, the Group also entered into a subscription agreement and a loan purchase agreement ("Investor Agreements") with an independent third party ("Investor") pursuant to which the Group will allot to the Investor 9.99 per cent shares ("Rafflesia Shares") of Rafflesia Investment Limited ("Rafflesia") which is an indirect wholly-owned subsidiary of the Company held by Melati and assign 9.99 per cent of the shareholder's loan to Rafflesia ("Rafflesia Loan") at a consideration to be determined at the time of the allotment based on the total investment costs incurred by the Group on the Indonesian development project plus finance charge. The Group also granted a put option to the Investor to require the Group, at any time on or after May 23, 2023, to purchase all the Rafflesia Shares and the Rafflesia Loan based on then consolidated net asset value of Rafflesia and its subsidiaries.

Details of the Supporting Agreement and the Investor Agreements are set out in the joint announcement issued by the Company and PCCW dated May 23, 2013, the circular issued by the Company dated June 25, 2013 and in notes 27(c)(i) and (ii) to the consolidated financial statements.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDER

1. Interests in the shares and underlying shares of the Company

As at December 31, 2017, the following person (other than directors or the chief executives of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/ underlying shares held
PCCW	Beneficial owner	1,470,155,332 *(Note)*

Note: These interests comprised (a) an interest in 285,088,666 shares in the Company held by Asian Motion Limited ("Asian Motion"), a wholly-owned subsidiary of PCCW; and (b) an interest in 1,185,066,666 underlying shares of the Company in relation to the bonus convertible notes in the aggregate amount of HK$592,533,333.20 as held by Asian Motion.

2. Short positions in shares and underlying shares of the Company

As at December 31, 2017, the Company had not been notified of any person who had short positions in the shares or underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at December 31, 2017, the Company had not been notified of any other person who had interests or short positions in the shares and underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the sections headed "Connected Transactions" and "Related Party Transactions" of this report, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, fellow subsidiaries or parent company was a party, and in which a director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2017, the directors of the Company had the following interests in businesses which competed or were likely to compete, either directly or indirectly, with the Group's businesses:

Name of director	Names of companies	Nature of business	Nature of interests
Li Tzar Kai, Richard	CK Hutchison Holdings Limited ("CK Hutchison") and its subsidiaries	Ports and related services, retail, infrastructure, energy and telecommunications	*(Note)*
	CK Asset Holding Limited ("CK Asset") and its subsidiaries	Property development and investment, hotel and serviced suite operation, and property and project management, aircraft leasing, and investment in energy and infrastructure assets that are household equipment services related	*(Note)*

Note: Li Tzar Kai, Richard has a personal interest in 75,240 shares in each of CK Hutchison and CK Asset, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of CK Hutchison and CK Asset. Certain businesses of CK Hutchison and CK Asset may compete with certain aspects of the businesses of the Group during the year.

In addition, Li Tzar Kai, Richard is a director of certain private companies ("Private Companies"), which are engaged in property development and investment.

Further, Li Tzar Kai, Richard is a director and chairman of PCRD. PCRD is an investment holding company with interests in telecommunications and media (through PCCW), logistics, property and infrastructure investment and development in the Asia Pacific region.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS – CONTINUED

The business interests of the Private Companies in Hong Kong are not significant when compared with the business of the Group and it is unlikely that such business interests will compete with the business of the Group. The business interests in Japan and the Asia Pacific region are also unlikely to compete with the existing business of the Group.

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures" of this report.

As PCRD and the Private Companies are involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm's length from, the businesses of those companies.

Save as disclosed above, none of the directors has an interest in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PERMITTED INDEMNITY

Pursuant to bye-law 166(1) of the Bye-laws of the Company, every director and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, PROVIDED THAT the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged directors' and officers' liability insurance coverage for the directors and officers of the Company during the year.

DONATIONS

During the year, the Group made charitable and other donations in the aggregate amount of approximately HK$0.12 million (2016: 1.56 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2017, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company.

MANAGEMENT CONTRACTS

Save for the directors' service contracts or employment 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CONNECTED TRANSACTIONS

Since the publication of the Company's annual report for the year ended December 31, 2016, the Group had entered into (or continued to be a party to) certain transactions which are "continuing connected transactions" as defined in the Listing Rules and which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company has complied with such disclosure requirements. Details of such transactions with subsidiaries and/or associates of PCCW, HKT and a director of the Company during the year are as follows:

Continuing connected transactions

1. As disclosed in the announcement of the Company dated December 23, 2016, PCPD Facilities Management Limited ("PCPD FM"), a wholly-owned subsidiary of the Company, had entered into a facilities management services agreement and a lease and tenant management services agreement ("Agreements") with Reach Networks Hong Kong Limited ("Reach Network"), a wholly-owned subsidiary of Reach Ltd., which is an associate of PCCW, on that day in relation to the facilities management services and lease and tenant management services it provides to Reach Networks from January 1, 2017 onwards for a term of two years until December 31, 2018 through a tender executed by Reach Networks at the fees calculated in accordance with the terms of the Agreements, subject to the annual caps of HK$8 million for 2017 and 2018. The aggregate fees charged by PCPD FM under the Agreements for the year ended December 31, 2017 was approximately HK$6.8 million for facilities management services and lease and tenant management services.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

2. As disclosed in the announcement of the Company dated December 23, 2016, PCPD Operations Limited ("PCPDOL"), an indirect wholly-owned subsidiary of the Company, had on that day entered into a master agreement for supply and procurement of goods and services with each of the following parties: (i) PCCW Solutions Limited, an indirect wholly-owned subsidiary of PCCW (PCCW together with its subsidiaries, "PCCW Group"; PCCW Group excluding the Group and the HKT Group (as defined below), "Parent Group") (the agreement with this entity shall be referred to as the "Parent Group 2016 Master Agreement"); and (ii) Hong Kong Telecommunications (HKT) Limited ("HKTL"), an indirect wholly-owned subsidiary of HKT together with its subsidiaries, "HKT Group") (the agreement with this entity shall be referred to as the "HKT Group 2016 Master Agreement"). Such agreements set out the frameworks for the provision of certain goods and services by the Parent Group and the HKT Group respectively to the Group for a term of three years from January 1, 2017 to December 31, 2019 at prices to be determined in accordance with the terms stipulated therein and subject to the annual caps as disclosed in the announcement. The categories of goods and services as provided under (i) the Parent Group 2016 Master Agreement are (a) Information Technology Solutions and Services and (b) Corporate Services and Other Services, and those provided under (ii) the HKT Group 2016 Master Agreement are (a) Telecommunications and Related Equipment and Services and (b) Corporate Services and Other Services.

   The aggregate contract amounts for transactions contemplated under the Parent Group 2016 Master Agreement for the financial year ended December 31, 2017 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2017	Annual Cap for the financial year ended December 31, 2017
	HK$'000	*HK$'000*
Information Technology Solutions and Services (not including those fully exempt as consumer goods and services)	349	2,900
Corporate Services and Other Services	509	1,400

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

2. – Continued

The aggregate contract amounts for transactions contemplated under the HKT Group 2016 Master Agreement for the financial year ended December 31, 2017 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2017	Annual Cap for the financial year ended December 31, 2017
	HK$'000	*HK$'000*
Telecommunications and Related Equipment and Services (not including those fully exempt as consumer goods and services)	766	1,500
Corporate Services and Other Services	3,526	4,100

3. As disclosed in the announcement of the Company dated January 20, 2016, agreement was reached between PT Prima Bangun Investama ("PT PBI") (as landlord), a wholly-owned subsidiary of the Company, and PT FWD Life Indonesia ("PT FWD") (as tenant), an associate of Li Tzar Kai, Richard, a director of the Company, by way of acceptance by PT FWD of a binding letter of offer (with a pro forma form of lease agreement attached thereto) issued by PT PBI ("FWD Agreement") in relation to the key terms of the lease of whole 20th Floor and a portion of the Ground Floor ("Premises") and the signage right of the premium Grade A office building which is under construction at Jl. Jenderal Sudirman Kavling. 52-53, SCBD Lot 10, Jakarta 12190, Indonesia ("Building"). The parties signed the formal lease agreement ("Formal Lease Agreement") on September 20, 2017 upon the Premises is ready for delivery to PT FWD. The tenor of the lease is three years from the lease commencement date which was tentatively on or after January 1, 2018. As the Premises are ready for early delivery, both parties agree the actual lease commencement date to be November 13, 2017 and the lease expiry date to be November 12, 2020. According to final confirmation of the area, the monthly rental is IDR1,261,395,233 (approximately HK$729,086) and the monthly service charges is IDR244,829,700 (approximately HK$141,512) for 2017 and 2018 (IDR90,000 per square meter (approximately HK$52)) which is subject to annual review after 2018, the annual parking charges of IDR382,200,000 (approximately HK$220,910) and annual signage charges of IDR1,083,333,333 (approximately HK$626,167) as in accordance with the terms of the FWD Agreement, subject to an annual cap of IDR23,102,300,000 (approximately HK$13,000,000) for each year of the lease term. The aggregate amounts charged by PT PBI under the Formal Lease Agreement for the year ended December 31, 2017 was IDR2,520,057,794 (approximately HK$1,456,593) for rentals, service charges, parking charges and signage charges.

As at December 31, 2017, PCCW, a substantial shareholder of the Company, held approximately 70.83% and approximately 51.97% equity interest in the Company and HKT respectively.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

The independent non-executive directors of the Company had reviewed and confirmed that the continuing connected transactions for the financial year ended December 31, 2017 have been entered into:

A. in the ordinary and usual course of the business of the Group;

B. on normal commercial terms or better; and

C. according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was engaged to report on the continuing connected transactions entered into by the Group for the year ended December 31, 2017 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in note 32 to the consolidated financial statements. Those related party transactions which constituted connected transactions or continuing connected transactions under the Listing Rules had complied with the applicable requirements under Chapter 14A of the Listing Rules.

SUBSEQUENT EVENT

Details of subsequent event relating to the Group is set out in note 36 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Company maintained the prescribed public float as required under the Listing Rules, based on information that was publicly available to the Company and within the knowledge of the directors of the Company.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the corporate governance report on pages 18 to 34 of this annual report.

AUDITOR

The consolidated financial statements for the financial year ended December 31, 2017 were audited by PricewaterhouseCoopers who will retire at the conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at that meeting.

On behalf of the Board

TSANG Sai Chung
Company Secretary

Hong Kong, February 5, 2018

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Pacific Century Premium Developments Limited
(Incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 151, which comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, 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 disclosure requirements of 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 identified in our audit are summarised as follows:

- Valuation of investment property in Indonesia
- Carrying values of properties under development and properties held for development

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment property in Indonesia *Refer to note 14 to the consolidated financial statements.*	
The Group's investment properties were carried at HK$3,822 million out of which HK$3,770 million as at December 31, 2017 related to the completed investment property in Indonesia. Management has engaged an independent professional valuer to determine the fair value of the investment property. The fair value was derived using the income capitalisation approach. The valuation was inherently subjective due to the significant estimates used which included the estimated market rent and capitalisation rate. Significant changes in these estimates could result in material changes to the valuation of the property.	Our procedures in relation to management's valuation of the investment property included: • Assessing the competence, capability and objectivity of the independent professional valuer; • Discussing the valuation methodology and key assumptions with the valuer; • Involving our internal valuation specialists to compare the estimated market rent in the valuation to our independently formed market expectations, and to compare the capitalisation rate to a range of expected yields, determined with reference to published market yields; and • Checking, on a sample basis, the accuracy and reasonableness of information, such as the rental income and lease period, used by the valuer, to the underlying lease agreements. We found the valuation of the investment property to be supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td>Carrying values of properties under development and properties held for development
Refer to note 16 to the consolidated financial statements.

The carrying values of properties under development and properties held for development were HK$612 million and HK598 million respectively as at December 31, 2017.

For the properties under development, management determined the net realisable value of the properties using the discounted cash flow forecast, which involved significant estimates and assumptions such as selling prices, construction costs and discount rate.

For the properties held for development, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.

Based on their determination of these net realisable values, management concluded that the carrying values of the properties under development and properties held for development were appropriate.</td><td>

Our procedures in relation to management's assessment of the carrying value of properties under development and properties held for development included:

• Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable value of properties under development and properties held for development;

• For the properties under development, comparing the estimated selling prices, construction costs and discount rate used in the assessment to our independently formed market expectation and country-specific market and industry data. We also performed sensitivity analysis on the key assumptions used in the assessment; and

• For the properties held for development, comparing management's estimates of selling prices for similar properties to market data. We also considered whether the adjusting factors used in management's assessment fell within a reasonable range with reference to our property industry knowledge in the country which the properties are located. We also performed sensitivity analysis on the key assumptions used in the assessment.

We found the carrying values of the properties under for development and properties held for development to be supported by the available evidence.</td></tr>
</table>

Other Information

The directors of the Company 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 Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the 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 Audit Committee is responsible 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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.

INDEPENDENT AUDITOR'S REPORT

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.

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 to 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 Chan Chui Man.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 5, 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

HK$ million	Note(s)	2017	2016
Revenue	4, 5	**164**	174
Cost of sales		**(37)**	(56)
Gross profit		**127**	118
General and administrative expenses		**(435)**	(418)
Other income		**8**	—
Other gains/(losses), net	6	**12**	(57)
Operating loss		**(288)**	(357)
Interest income		**59**	11
Finance costs	7	**(85)**	—
Loss before taxation	8	**(314)**	(346)
Income tax	11	**(26)**	(18)
Loss attributable to equity holders of the Company		**(340)**	(364)
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences:			
Exchange differences on translating foreign operations		**55**	56
Total comprehensive loss		**(285)**	(308)
Loss per share (expressed in Hong Kong cents per share)			
Basic and diluted	13	**(21.44) cents**	(22.96) cents

The notes on pages 75 to 151 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

				2017			
HK$ million	**Issued equity**	**Capital reserve**	**Currency translation reserve**	**Convertible notes reserve**	**Other reserves**	**Retained earnings**	**Total**
Balance at January 1, 2017	**2,847**	**(565)**	**(608)**	**592**	**10**	**2,670**	**4,946**
Total comprehensive income/(loss) for the year	**—**	**—**	**55**	**—**	**—**	**(340)**	**(285)**
Balance at December 31, 2017	**2,847**	**(565)**	**(553)**	**592**	**10**	**2,330**	**4,661**

				2016			
HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Other reserves	Retained earnings	Total
Balance at January 1, 2016	2,848	(565)	(664)	592	10	3,034	5,255
Total comprehensive income/(loss) for the year	—	—	56	—	—	(364)	(308)
Shares repurchased and cancelled (note 23(d))	(1)	—	—	—	—	—	(1)
Balance at December 31, 2016	2,847	(565)	(608)	592	10	2,670	4,946

The notes on pages 75 to 151 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

HK$ million	Note	2017	2016
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	**3,822**	3,266
Property, plant and equipment	15	**534**	174
Properties under development	16(a)	**612**	402
Properties held for development	16(b)	**598**	544
Goodwill	17	**3**	3
Other financial assets	18	**—**	3
Prepayments and other receivables		**311**	273
		5,880	4,665
Current assets			
Sales proceeds held in stakeholders' accounts	20(a)	**508**	510
Restricted cash	20(b)	**98**	103
Trade receivables, net	20(c)	**14**	10
Prepayments, deposits and other current assets		**110**	158
Amounts due from fellow subsidiaries	32(c)	**—**	1
Amounts due from related companies	32(c)	**6**	6
Other financial assets	18	**81**	4
Short-term deposits		**1,019**	3
Cash and cash equivalents		**2,633**	868
		4,469	1,663

HK$ million	Note	2017	2016
Current liabilities			
Short-term borrowings	21	—	457
Trade payables	20(d)	**23**	23
Accruals, other payables and deferred income	20(e)	**491**	297
Deposits received from pre-sale of properties		**69**	—
Amount payable to the HKSAR Government under the Cyberport Project Agreement	22	**321**	321
Current income tax liabilities		**6**	4
		910	1,102
Net current assets		**3,559**	561
Total assets less current liabilities		**9,439**	5,226
Non-current liabilities			
Long-term borrowings	21	**4,473**	—
Other payables		**206**	208
Deferred income		**74**	50
Deferred income tax liabilities	27(a)	**25**	22
		4,778	280
Net assets		**4,661**	4,946
CAPITAL AND RESERVES			
Issued equity	23	**2,847**	2,847
Reserves		**1,814**	2,099
		4,661	4,946

Lee Chi Hong, Robert
Director

James Chan
Director

The notes on pages 75 to 151 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

HK$ million	Note	2017	2016
NET CASH USED IN OPERATING ACTIVITIES	28	**(320)**	(411)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(286)**	(27)
Payment for investment properties		**(431)**	(966)
Distribution received from financial instrument liquidation		**—**	3
Purchase of other financial assets		**(78)**	—
Proceeds from disposal of property, plant and equipment		**1**	—
Increase in short-term deposits with maturity more than three months		**(1,016)**	(2)
NET CASH USED IN INVESTING ACTIVITIES		**(1,810)**	(992)
FINANCING ACTIVITIES			
Proceeds from bank borrowings, net		**52**	465
Proceeds from issue of guaranteed notes, net		**4,391**	—
Repayment of bank borrowing		**(465)**	—
Borrowing costs paid		**(112)**	(15)
Repurchase of shares		**—**	(1)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**3,866**	449
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,736**	(954)
Exchange difference		**29**	7
CASH AND CASH EQUIVALENTS			
Balance at January 1,		**868**	1,815
Balance at December 31,		**2,633**	868
Analysis of cash and cash equivalents			
Cash and bank balances		**3,652**	871
Less: Short-term deposits		**(1,019)**	(3)
Cash and cash equivalents at December 31,		**2,633**	868

The notes on pages 75 to 151 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

The Company is a limited liability company incorporated in Bermuda and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

At December 31, 2017, the directors consider the immediate holding company of the Group to be Asian Motion Limited, a company incorporated in British Virgin Islands, and the ultimate holding company of the Group to be PCCW Limited ("PCCW"), a company incorporated in Hong Kong. PCCW produces financial statements available for public use.

These consolidated financial statements set out on pages 70 to 151 were approved by the board of directors (the "Board") on February 5, 2018.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Companies Ordinance of Hong Kong.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2017 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, except that the following assets are stated at fair value as explained in the accounting policies set out below:

– investment properties (see note 2(g));
– financial assets at fair value through profit or loss (see note 2(m)); and
– derivative financial instruments (see note 2(n)).

The preparation of consolidated financial statements in conformity with HKFRS 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 consolidated financial statements, are disclosed in note 3.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group. The following sets out the changes in accounting policies for the current and prior accounting periods reflected in these consolidated financial statements.

Standards and amendments effective for the annual period beginning on January 1, 2017 adopted by the Group but have no significant impact on the Group's consolidated financial statements

HKAS 7 (Amendment)	Disclosure Initiative – Statement of Cash Flows
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendments)	Disclosure of Interest in Other Entities

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements – Continued

The following new standards, amendments and interpretations have been issued but are not yet effective for the year ended December 31, 2017 and which the Group has not early adopted:

HKAS 28 (Amendment)	Investment in Associates and Joint Ventures [2]
HKAS 40 (Amendment)	Transfers of Investment Property [1]
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions [1]
HKFRS 4 (Amendment)	Insurance Contracts [1]
HKFRS 9	Financial Instruments [1]
HKFRS 9	Prepayment Features with Negative Compensation [2]
HKFRS 10 and HKAS 28 (Amendment)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture [4]
HKFRS 15	Revenue from Contracts with Customers [1]
HKFRS 15 (Amendment)	Clarifications to HKFRS 15 Revenue from Contracts with Customers [1]
HKFRS 16	Leases [2]
HKFRS 17	Insurance Contracts [3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration [1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments [2]
Annual Improvements to HKFRS 2014-2016 Cycle [1]	

Note:

1 Effective for annual periods beginning on or after January 1, 2018

2 Effective for annual periods beginning on or after January 1, 2019

3 Effective for annual periods beginning on or after January 1, 2021

4 Effective date to be determined

Apart from the above, a number of annual improvements and minor amendments to HKFRS have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2017 and have not been adopted in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements – Continued

The Group considers that the new or revised standards, amendments and interpretations effective for the annual period beginning on January 1, 2018 would not have significant impact on the Group's results of operations and financial position, except the following:

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 replaces HKAS 18 "Revenue" and the related interpretations. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer. Also, revenue should be recognised in respect of each performance obligation. Impact on the revenue recognition may arise when multiple performance obligations are identified.

The Group is currently assessing the effects of applying the new standard on the consolidated financial statements and has identified the following areas that are likely to be affected. Under HKFRS 15, revenue from sale of properties is recognised when or as a performance obligation by transferring the properties to the customers is satisfied. A property is transferred when or as the customer obtains control of that property. Depending on the terms of the contracts and the laws that apply to the contracts, control of the properties may transfer over time or at a point in time. The Group anticipates that the timing of the recognition of revenue in respect of sale of properties may be changed.

At this stage, the Group estimates that the impact of the new standard on the consolidated financial statements is immaterial.

For the other new or revised standards, amendments and interpretations effective for annual periods after the year of 2018, the Group has commenced assessment on HKFRS 16 "Lease" and estimated that the adoption of HKFRS 16 "Lease" would result in the recognition of lease assets and lease liabilities. The Group will continue to assess the impact in more details. We are still under assessment for the rest of the new or revised standards and is not yet in a position to state whether would have a significant impact on the Group's results of operations and financial position.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

c. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. 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. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, investment in a subsidiary is stated at cost less any impairment losses (note 2(h)). The results of subsidiaries are recognised by the Company to the extent of dividends received and receivable at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

d. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and that the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of properties

Revenue and profits arising from sales of completed properties are recognised upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the properties passes to the purchasers together with the significant risks and rewards of ownership.

(ii) 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.

Receipts of rental income in advance are deferred and recorded as "Deferred income" in the consolidated statement of financial position. The amounts are then recognised as revenue based on the actual utilisation of the rental usage of the investment properties.

(iii) Service income

Service income is recognised when the related services are rendered to customers.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis using the effective interest method by reference to the principal outstanding and the rates applicable.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

e. Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases (as lessor)

Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature as set out in note 2(g). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(d)(ii).

(ii) Operating lease charges

Leases in which a significant portion of the risks and rewards of ownership retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Up-front payments made for leasehold land held under operating leases are presented in the statement of financial position as prepayments for operating leases and are amortised in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

f. Property, plant and equipment and depreciation

Land and buildings are stated at cost less impairment losses (note 2(h)) less subsequent depreciation for buildings. Land has an indefinite useful life and is not subject to depreciation.

Property, plant and equipment held for own use are stated at cost less accumulated depreciation and impairment losses (note 2(h)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including qualifying borrowing costs (note 2(s)). Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset and is depreciated over the original remaining useful life of the asset when it is probable that future economic benefits will flow to the Group and the costs can be measured reliably. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

The transfer from properties under development to property, plant & equipment as a result of change in its use is stated at its carrying value at the date of transfer.

When an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

Land and construction in progress are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost on a straight-line basis over the estimated useful lives as follows:

Buildings and structures	5 to 51 years
Other plant and equipment	2 to 17 years

The useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation, and which are not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties.

Land held under operating leases are classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are initially measured at their cost, including directly attributable construction costs, borrowing costs and other related transaction costs. After initial recognition, investment properties are stated in the statement of financial position at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee and are prepared or reviewed periodically by independent external valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Changes in fair value arising on the revaluation of investment properties are recognised in the income statement.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

h. Impairment of investment in a subsidiary and non-financial 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;
- goodwill; and
- investment in a subsidiary (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (a cash-generating unit).

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. 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.

(ii) Reversals of impairment losses

An impairment loss of an asset other than goodwill is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 the income statement in the year in which the reversals are recognised.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

i. Properties under development/held for development

Properties under development are carried at the lower of cost and the estimated net realisable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditures incurred and other direct development costs attributable to such properties, including interest incurred on loans directly attributable to the development prior to the completion of construction. The net realisable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

Properties under development with the development expected to be completed within one year from the end of the reporting period, which have either been pre-sold or are intended for sale, are classified under current assets.

Properties held for development represent interests in land held for future development which are stated at cost less accumulated impairment losses.

j. Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred and the fair value of non-controlling interest over the Group's interest in the net fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statement of financial position at cost less accumulated impairment losses (note 2(h)). Goodwill is allocated to cash-generating units and is tested annually for impairment. Impairment losses on goodwill are not reversed. On disposal of an entity or business unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

k. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. Trade and other receivables are included in the consolidated statement of financial position under "Trade receivables, net" and "Prepayments, deposits and other current assets" under current assets and "Prepayments and other receivables" under non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of loans and receivables. Significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

l. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other 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, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

m. Financial assets at fair value through profit or loss

The Group classifies their investments in equity securities, other than investment in a subsidiary, as financial assets at fair value through profit or loss. This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realised within twelve months from the end of the reporting period. Any attributable transaction costs are recognised in the income statement as incurred. At the end of each reporting period, the fair value is re-measured, with any unrealised holding gains or losses arising from the changes in fair value being recognised in the income statement in the period in which they arise. The net gain or loss recognised in the income statement does not include any dividends on the financial assets as dividend income is recognised only when the shareholder's right to receive payment is established.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

n. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting period. The gain or loss on re-measurement to fair value is recognised in the income statement.

o. Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

p. Trade and other payables

Trade and other payables are recognised initially at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. They are included in current liabilities, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

q. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the amount required to settle the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of resources 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.

r. Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised, being the proceeds net of transaction costs, and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

s. Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the period of the borrowing using the effective interest method.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

t. Income tax

Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Income tax is recognised in the income statement.

(i) Current income 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.

(ii) Deferred income tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred income tax assets also arise from unused tax losses and unused tax credits.

All deferred income tax liabilities are recognised while deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(g), the amount of deferred income tax recognised is measured using the tax rates that would be applied on sale of those assets at their carrying value in the statement of financial position 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 income tax provided is 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 income tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

t. Income tax – Continued

(iii) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

u. Employee benefits

(i) Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the end of the reporting period.

(ii) Defined contribution retirement schemes (including the Mandatory Provident Fund) are offered to employees of the Group. The schemes are operated by PCCW and the assets of such schemes are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW Group including the Group and, in some cases, employees themselves, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are recognised as expenses in the income statement in the period to which the contributions relate. Under the defined contribution retirement schemes, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

u. Employee benefits – Continued

(iii) The Group and PCCW operate share option schemes where employees (including directors) are granted options to acquire shares of the Company or PCCW at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognised as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. At the end of each reporting period, the Group revises its estimates of the number of share options that is expected to become vested. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognised in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained earnings). When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital (nominal value) and share premium.

(iv) The Board of directors of PCCW may also grants shares of PCCW or share stapled units of HKT Limited ("HKT"), a fellow subsidiary of the Group, to the employees of the Group at nil consideration under its share award scheme; which the awarded shares or share stapled units are either newly issued at par value (the "Subscription Scheme") or are purchased from the open market (the "Purchase Scheme").

Awards under the Purchase Scheme and the Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded PCCW shares and HKT share stapled units represents the quoted market price of PCCW shares and HKT share stapled units purchased from the open market under the Purchase Scheme and the issue price of PCCW shares and HKT share stapled units under the Subscription Scheme are recognised as financial assets at fair value through profit or loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares and HKT share stapled units are recognised as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognised. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of awarded PCCW shares and HKT share stapled units that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares and HKT share stapled units recognised in the financial assets at fair value through profit or loss is offset with the obligation.

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2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

v. Share-based payment transactions with cash alternatives

Share-based payment transactions are those arrangements which the terms provide either the Group or the counterparty with a choice of whether the Group settles the transaction in cash (or other assets) or by issuing equity instruments. Upon the vesting conditions, if any, are met, the Group shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets). Otherwise, the share-based payment transaction is accounted for as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

w. Foreign currency translation

The Group maintains their books and records in the primary currencies of their operations (the "functional currencies"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currencies 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.

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 transactions. Items included in the consolidated statement of financial position of foreign operations, including goodwill arising on consolidation of foreign operations acquired, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated separately currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the gain or loss on disposal.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

x. Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's senior executive 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.

y. Dividend distribution

Dividend distribution to the Company's shareholders/bonus convertible noteholders is recognised as a liability in the consolidated financial statements and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected capitalisation rate, market price and market rent in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different capitalisation rate, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated statement of comprehensive income. As at December 31, 2017, the fair value of the investment properties was HK$3,822 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(ii) Cost of sales and amount payable to the HKSAR Government under the Cyberport Project Agreement

Pursuant to the agreement dated May 17, 2000 entered into with the HKSAR Government ("Cyberport Project Agreement"), the HKSAR Government is entitled to receive approximately 65 per cent of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the HKSAR Government are part of the Group's costs of developing the Cyberport project.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the HKSAR Government is recognised as cost of properties sold. Had the estimates of development costs been revised, this would have affected the costs of properties sold recorded in the consolidated statement of comprehensive income.

(iii) Taxation

As at December 31, 2017, the Group has value added tax payment of Indonesian rupiah 183,834 million (equivalent to HK$106 million) which is classified as other non-current receivables pending to compensate the future output value added tax. As disclosed in 2014 Annual Report Note 15(i), such amount related to acquisition of a land parcel in Jakarta, Indonesia, where the relevant tax authority has completed an assessment in 2014. In assessing the recoverability of the balance, the Group considers among other factors, the results of the assessment from the relevant tax authority, tax regulations, and the tax advisory by professional advisors. In case there is any change in tax regulations or subsequent assessments by the tax authority, adjustments to the balance would be made and any impairment losses would be recognised in the consolidated statement of comprehensive income.

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred income tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits carried forward in the future, adjustments to the recorded amount of net deferred income tax assets and income tax would be made. As at December 31, 2017, no deferred income tax assets were netted off against the deferred income tax liabilities recognised in the consolidated statement of financial position (note 27(a)).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(iv) Impairment of investment in a subsidiary and non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information 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;
– goodwill;
– properties under development/held for development; and
– investment in a subsidiary (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources used to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value. The recoverable value of property, plant and equipment, goodwill and investment in a subsidiary represents the greater of the asset's fair value less cost to sell or its value in use while the recoverable value of properties under development/held for development refers to the net realisable value. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessment utilising internal resources or the Group may engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

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4. REVENUE

Revenue comprises the revenue recognised in respect of the following businesses:

HK$ million	2017	2016
All-season recreational activities in Japan	96	92
Property investment in Indonesia	3	—
Property and facilities management in Hong Kong	28	47
Property management in Japan	20	20
Other businesses	17	15
	164	174

5. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resources allocation and assessment of segment performance for the year ended December 31 is set out below:

a. Business segments

	Revenue						Results		Other information	
	Revenue from external customers		Inter-segment revenue		Reportable segment revenue		Segment results before taxation		Additions to non-current segment assets	
HK$ million	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
All-season recreational activities in Japan	**96**	92	**—**	—	**96**	92	**4**	—	**13**	4
Property investment in Indonesia	**3**	—	**—**	—	**3**	—	**(47)**	(16)	**650**	1,126
Property development in Thailand	**—**	—	**—**	—	**—**	—	**(4)**	(5)	**5**	13
Property development in Japan	**—**	—	**—**	—	**—**	—	**(39)**	(16)	**478**	43
Property and facilities management in Hong Kong	**28**	47	**—**	—	**28**	47	**2**	8	**—**	—
Property management in Japan	**20**	20	**—**	—	**20**	20	**2**	3	**—**	—
Other businesses (note i)	**17**	15	**2**	2	**19**	17	**3**	2	**—**	—
Elimination	**—**	—	**(2)**	(2)	**(2)**	(2)	**—**	—	**—**	—
Total of reported segments	**164**	174	**—**	—	**164**	174	**(79)**	(24)	**1,146**	1,186
Unallocated	**—**	—	**—**	—	**—**	—	**(235)**	(322)	**1**	9
Consolidated	**164**	174	**—**	—	**164**	174	**(314)**	(346)	**1,147**	1,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

5. SEGMENT INFORMATION – CONTINUED

a. Business segments – Continued

	Assets		Liabilities	
HK$ million	**2017**	2016	**2017**	2016
All-season recreational activities in Japan	**140**	132	**23**	14
Property investment in Indonesia	**4,380**	3,686	**489**	802
Property development in Thailand	**605**	558	**10**	9
Property development in Japan	**1,043**	498	**147**	25
Property and facilities management in Hong Kong	**20**	27	**3**	5
Property management in Japan	**26**	24	**5**	14
Other businesses (note i)	**75**	73	**11**	11
Total of reported segments	**6,289**	4,998	**688**	880
Unallocated	**4,060**	1,330	**5,000**	502
Consolidated	**10,349**	6,328	**5,688**	1,382

(i) Revenue from segments below the quantitative thresholds under HKFRS 8 are mainly attributable to two operating segments of the Group. These segments include property investment in Hong Kong and asset management in Mainland China. None of these segments have ever met any of the quantitative thresholds for determining reportable segments.

5. SEGMENT INFORMATION – CONTINUED

b. Geographical information

The following table sets out the information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, properties under development, properties held for development, goodwill and prepayment and other receivables ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of investment properties, property, plant and equipment and properties under development/held for development, and the location of the operation to which they are allocated, in case of goodwill and prepayment and other receivables.

	Revenue from external customers		Specified non-current assets	
HK$ million	**2017**	2016	**2017**	2016
Japan	**116**	112	**1,048**	558
Hong Kong (place of domicile)	**33**	49	**65**	69
Mainland China	**12**	13	**1**	5
Thailand	**—**	—	**598**	544
Indonesia	**3**	—	**4,168**	3,486
	164	174	**5,880**	4,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

6. OTHER GAINS/(LOSSES), NET

HK$ million	**2017**	2016
Fair value loss on the derivative financial instrument	**—**	(60)
Fair value gain on financial assets at fair value through profit or loss	**1**	—
Gain on an impaired financial instrument upon liquidation	**—**	3
Reversal of provision related to disposal of subsidiaries in prior years	**11**	—
	12	(57)

7. FINANCE COSTS

HK$ million	**2017**	2016
Interest expenses:		
– Bank borrowings	**40**	16
– Guaranteed notes	**177**	—
– Other finance costs	**3**	3
	220	19
Less:		
– Interest capitalised into investment properties	**(114)**	(19)
– Interest capitalised into properties under development	**(19)**	—
– Interest capitalised into property, plant and equipment	**(2)**	—
	85	—

Borrowing costs have been capitalised at the weighted average rate of the Group's borrowings at 5.30 per cent per annum in 2017 (2016: 4.68 per cent).

8. LOSS BEFORE TAXATION

Loss before taxation is stated after crediting and charging the following:

HK$ million	2017	2016
Crediting:		
Gross rental income from investment properties	**5**	2
Other rental income	**12**	13
Less: outgoings	**(5)**	(5)
Charging:		
Depreciation	**22**	19
Staff costs, included in:		
– cost of sales	**20**	17
– general and administrative expenses	**157**	147
Contributions to defined contribution retirement schemes, included in general and administrative expenses	**5**	6
Share-based compensation expenses	**6**	5
Auditor's remuneration		
– audit services	**5**	4
– non-audit services	**2**	1
Operating lease rental of land and buildings, included in general and administrative expenses	**37**	40
Operating lease rental of equipment	**4**	3
Net foreign exchange loss	**6**	3

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9. DIRECTORS' EMOLUMENTS

Directors' emoluments comprise the aggregate amounts paid/payable by the Group to each of the directors of the Company in connection with their employment as directors of the Company or its subsidiaries undertaking during the year.

	2017						
HK$'000	Directors' fee	Salaries	Bonuses	Allowances	Benefits in kind (note ii)	Employer's contribution to retirement scheme	Total
Executive Directors							
Li Tzar Kai, Richard	—	—	—	—	—	—	—
Lee Chi Hong, Robert (note iii)	—	7,210	—	3,090	99	1,081	11,480
James Chan	—	4,558	—	1,953	11	684	7,206
Independent Non-executive Directors							
Chiang Yun	228	—	—	—	—	—	228
Prof Wong Yue Chim, Richard, SBS, JP	228	—	—	—	—	—	228
Dr Allan Zeman, GBM, GBS, JP	228	—	—	—	—	—	228
	684	11,768	—	5,043	110	1,765	19,370

9. DIRECTORS' EMOLUMENTS – CONTINUED

2016

HK$'000	Directors' fee	Salaries	Bonuses (note i)	Allowances	Benefits in kind (note ii)	Employer's contribution to retirement scheme	Total
Executive Directors							
Li Tzar Kai, Richard	—	—	—	—	—	—	—
Lee Chi Hong, Robert (note iii)	—	6,949	4,500	2,978	94	1,042	15,563
James Chan	—	4,393	4,000	1,883	14	659	10,949
Independent Non-executive Directors							
Chiang Yun	228	—	—	—	—	—	228
Prof Wong Yue Chim, Richard, SBS, JP	228	—	—	—	—	—	228
Dr Allan Zeman, GBM, GBS, JP	228	—	—	—	—	—	228
	684	11,342	8,500	4,861	108	1,701	27,196

(i) Refers to bonuses in respect of 2015 and 2016, paid in 2016.

(ii) Benefits in kind mainly includes medical insurance premium.

(iii) Mr. Lee Chi Hong, Robert is also the Chief Executive Officer of the Company.

(iv) No director offered to waive the basic salary and housing benefits during the year of 2017 (2016: Nil).

(v) No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services have been paid to or are receivable by the directors during the year ended December 31, 2017 (2016: Nil).

(vi) No consideration was provided to or receivable by third parties for making available directors' services during the year ended December 31, 2017 (2016: Nil).

(vii) Save as disclosed in the Report of The Directors, there are no loans, quasi-loans and other dealings entered into by the Company or its subsidiary undertaking of the Company, in favour of directors, their controlled bodies corporate and connected entities during the year ended December 31, 2017 (2016: Nil).

(viii) Save as disclosed in the Report of The Directors, there are no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2017 (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. FIVE TOP-PAID EMPLOYEES

a. Of the five highest paid individuals in the Group, two (2016: two) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining three highest paid individuals (2016: three) are as follows:

HK$ million	**2017**	2016
Salaries and other short-term employee benefits	**16**	15
Bonuses (note i)	**12**	11
Retirement scheme contributions	**1**	1
Share-based compensation expenses	**6**	5
	35	32

(i) Bonuses were included in the year of payment.

b. The emoluments of the remaining three individuals (2016: three) are within the emolument ranges as set out below:

	Number of individuals	
	2017	2016
HK$3,000,001 – HK$3,500,000	**1**	1
HK$13,000,001 – HK$13,500,000	**—**	1
HK$14,000,001 – HK$14,500,000	**1**	—
HK$16,000,001 – HK$16,500,000	**—**	1
HK$18,000,001 – HK$18,500,000	**1**	—
	3	3

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5 per cent (2016: 16.5 per cent) on the estimated assessable profits for the year.

Taxation for subsidiaries outside Hong Kong has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

HK$ million	2017	2016
Hong Kong profits tax		
– Provision for current year	—	1
Income tax outside Hong Kong		
– Provision for current year	23	14
Deferred income tax		
– Other origination and reversal of temporary differences	3	3
	26	18

Reconciliation between income tax and the Group's accounting loss at applicable tax rates is set out below:

HK$ million	2017	2016
Loss before taxation	(314)	(346)
Notional tax on loss before taxation, calculated at applicable tax rate of 16.5 per cent (2016: 16.5 per cent)	(52)	(57)
Tax effect of income not subject to taxation	(13)	(4)
Tax effect of expenses not deductible for taxation purposes	64	58
Tax losses for which no deferred income tax asset was recognised	8	6
Utilisation of previously unrecognised tax losses	(1)	—
Others	20	15
Income tax	26	18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. DIVIDEND

HK$ million	**2017**	2016
Final dividend	—	—

There were no final dividend paid for the years ended December 31, 2017 and December 31, 2016.

13. LOSS PER SHARE

The calculations of basic and diluted loss per share based on the share capital of the Company are as follows:

	2017	2016
Loss (HK$ million)		
Loss for the purpose of calculating the basic and diluted loss per share	**(340)**	(364)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic and diluted loss per share	**1,587,576,022**	1,587,648,336

Pursuant to the terms of the applicable deed poll, the bonus convertible notes confer upon the holders the same economic interests attached to the bonus shares. The aggregated amount of HK$592,553,354.40 (2016: HK$592,553,354.40) for the outstanding bonus convertible notes which could be converted into 1,185,106,708 (2016: 1,185,106,708) fully paid ordinary shares of HK$0.50 each is included in the weighted average number of ordinary shares for calculating the basic loss per share for the years ended December 31, 2017 and December 31, 2016.

14. INVESTMENT PROPERTIES

HK$ million	2017	2016
At January 1,	3,266	2,136
Additions	647	1,126
Transfer to property, plant and equipment (note i)	(93)	—
Exchange differences	2	4
At December 31,	3,822	3,266

(i) During the year ended December 31, 2017, a portion of the property has been changed from investment property held for rental purpose to owner-occupied property at the commencement of owner occupation and the respective fair value of HK$93 million has been reclassified to property, plant and equipment at the date of transfer.

(ii) As at December 31, 2016, a sum of approximately HK$62 million advanced to the contractors in relation to the construction of the investment property is included in "Prepayment, deposits and other current assets" in the consolidated statement of financial position. There is no such balance as at December 31, 2017 as the construction of the property has been completed.

(iii) As at December 31, 2017, value added tax receivables of approximately HK$275 million and HK$6 million (December 31, 2016: HK$236 million and HK$10 million) in relation to the land acquisition and construction of the investment property are included in non-current assets "Prepayments and other receivables" and current assets "Prepayment, deposits and other current assets" in the consolidated statement of financial position respectively.

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14. INVESTMENT PROPERTIES – CONTINUED

a. The following tables analyse the investment properties which are carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1)
- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for asset that are not based on observable market data (level 3)

HK$ million	Fair value measurement as at December 31, 2017 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurement			
Investment properties			
– Indonesia	—	—	**3,770**
– Hong Kong	—	—	**52**

HK$ million	Fair value measurement as at December 31, 2016 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurement			
Investment properties			
– Indonesia	—	—	3,214
– Hong Kong	—	—	52

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between different levels.

14. INVESTMENT PROPERTIES – CONTINUED

Information about level 3 fair value measurements

		As at December 31, 2017	
Investment properties	**Valuation technique**	**Unobservable inputs**	**Rate**
– Indonesia	**Income capitalisation approach**	**Capitalisation rate**	**7%**
		Monthly gross market rent:	
		for office	**Rp 340,000/sq.m. to Rp 479,000/sq.m.**
		for retail	**Rp 330,000/sq.m. to Rp 600,000/sq.m.**
– Hong Kong	**Income capitalisation approach**	**Capitalisation rate**	**4.5%**
		Monthly gross market rent	**HK$9.27/sq. ft.**

		As at December 31, 2016	
Investment properties	Valuation technique	Unobservable inputs	Rate
– Indonesia	Residual value approach	Price per net saleable area	US$5,750/sq.m. to US$6,000/sq.m.
		Construction cost	US$2,285/sq.m. to US$2,460/sq.m.
– Hong Kong	Income capitalisation approach	Capitalisation rate	4.5%
		Monthly gross market rent	HK$9.27/sq. ft.

Rp represents Indonesian rupiah

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14. INVESTMENT PROPERTIES – CONTINUED

For the investment property in Indonesia, management estimated the fair value of the property as at December 31, 2016, using residual value approach, with reference to estimated sales prices of similar completed properties allowing for the outstanding development costs, primarily construction costs to complete. For the year ended December 31, 2017, the fair value of investment property is determined by an independent professional valuer and the valuation approach has been changed to the income capitalisation approach as the construction of the property has been completed and the property is available for tenants' occupation. The valuation takes into account of expected market rent and capitalisation rate. A significant change in the expected market rent or capitalisation rate would result in a significant change in the fair value of the investment property.

For the investment property in Hong Kong, the usage of this property is constrained by the Group's undertaking to the lessee. Management has performed the valuation of the fair value as at December 31, 2017 using the income capitalisation approach assuming such constraint and the current tenancy agreement will continue in its existing manner in the foreseeable future. The valuation takes into account expected market rent and capitalisation rate. A significant change in the expected market rent or capitalisation rate would result in a significant change in the fair value of the investment property.

b. The carrying amount of investment properties is analysed as follows:

HK$ million	**2017**	2016
Held in Indonesia		
On medium-term lease (10-50 years)	**3,770**	3,214
Held in Hong Kong		
On long lease (over 50 years)	**52**	52
	3,822	3,266

15. PROPERTY, PLANT AND EQUIPMENT

HK$ million	Land	Buildings and structures	Other plant and equipment	Construction in progress	Total
At January 1, 2016					
At cost	42	94	165	7	308
Less: Accumulated depreciation	—	(22)	(126)	—	(148)
Net book value	42	72	39	7	160
Net book value at January 1, 2016	42	72	39	7	160
Additions	—	—	13	14	27
Transfers	—	—	4	(4)	—
Depreciation	—	(4)	(15)	—	(19)
Exchange differences	(1)	5	1	1	6
Net book value at December 31, 2016	41	73	42	18	174
At December 31, 2016					
At cost	41	99	183	18	341
Less: Accumulated depreciation	—	(26)	(141)	—	(167)
Net book value	41	73	42	18	174
Net book value at January 1, 2017	**41**	**73**	**42**	**18**	**174**
Additions	**31**	**10**	**19**	**227**	**287**
Transfer from investment properties (note 14(i))	**5**	**64**	**24**	**—**	**93**
Transfers (note i)	**—**	**39**	**22**	**(61)**	**—**
Depreciation	**—**	**(5)**	**(17)**	**—**	**(22)**
Disposal	**—**	**(2)**	**(3)**	**—**	**(5)**
Exchange differences	**3**	**1**	**4**	**(1)**	**7**
Net book value at December 31, 2017	**80**	**180**	**91**	**183**	**534**
At December 31, 2017					
At cost	**80**	**210**	**247**	**183**	**720**
Less: Accumulated depreciation	**—**	**(30)**	**(156)**	**—**	**(186)**
Net book value	**80**	**180**	**91**	**183**	**534**

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15. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

(i) During the year ended December 31, 2017, the Group acquired a previous leased property in Niseko, Hokkaido, Japan at a consideration of Japanese yen ("JPY") 404 million (equivalent to approximately HK$28 million) (2016: Nil). The property was demolished for construction of a eco hotel for staff dormitory and budget travellers. The land acquisition cost and part of the construction cost are financed by a term loan facility (note 21(c)). The Group completed phase 1 construction in the second half of 2017 and its construction cost of HK$30 million and HK$22 million were transferred from "Construction in progress" to "Buildings and structures" and "Other plant and equipment" respectively during the year ended December 31, 2017.

16. PROPERTIES UNDER DEVELOPMENT/HELD FOR DEVELOPMENT

a. Properties under development

HK$ million	2017	2016
At January 1,	**402**	349
Additions	**208**	29
Exchange differences	**2**	24
At December 31,	**612**	402

(i) Properties under development as at December 31, 2017 represents freehold land in Japan which is held by an indirect wholly-owned subsidiary. Management has performed an assessment of the net realisable value of the development project in Japan included in properties under development as at December 31, 2017. The assessment is based on the discounted cash flow forecast of the development project which involves the use of significant estimates and assumptions such as selling prices, construction costs and discount rate. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the net realisable value of the development project.

16. PROPERTIES UNDER DEVELOPMENT/HELD FOR DEVELOPMENT – CONTINUED

b. Properties held for development

HK$ million	**2017**	2016
At January 1,	**544**	525
Additions	**5**	13
Exchange differences	**49**	6
At December 31,	**598**	544

Properties held for development as at December 31, 2017 represents freehold land in Thailand, for which the Group intends for future development projects. The land in Thailand is held by the Group through a long-term operating lease agreement with the legal owners, 39 per cent owned entities, established to hold the land, whose financial statements have been consolidated into these consolidated financial statements (note 19).

Management has performed assessments of the net realisable value of the property interest together with the costs of improvements spent on the land in Thailand included in properties held for development as at December 31, 2017. The valuation is based on the direct comparison approach which involves the use of estimates and assumptions including the recent sales prices of similar properties with adjustments for any difference in nature, locality and condition of the properties. Changes in the assumptions adopted in the valuation may result in a change in future estimates of the net realisable value of the development project.

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17. GOODWILL

HK$ million	**2017**	2016
Costs:		
At January 1, and December 31,	**99**	99
Accumulated impairment losses:		
At January 1, and December 31,	**(96)**	(96)
Carrying amount:		
At December 31,	**3**	3

Goodwill is allocated to the Group's cash-generating unit identified as follows:

HK$ million	**2017**	2016
Other business – property management operations	**3**	3

Management has performed assessments of the recoverable amount of the property management operations which is determined based on the cash flow forecast of the business. Management considered there is no impairment of goodwill in relation to the property management operations as at December 31, 2017 (December 31, 2016: Nil).

The impairment losses recognised in prior years related to the property development division and ski operation.

18. OTHER FINANCIAL ASSETS

Financial assets at fair value through profit or loss:

HK$ million	**2017**	2016
Listed equity securities, Hong Kong	**2**	7
Unlisted non-equity Libor based liquidity fund	**79**	—
	81	7
Less: Amount classified as current assets	**(81)**	(4)
	—	3

19. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS

The following list contains only the particulars of subsidiaries and entities which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company Directly	Equity interest attributable to the Company Indirectly
北京裕澤諮詢服務有限公司[1]	The People's Republic of China	Property management and leasing	US$100,000	—	100%
City Charm Enterprises Limited 城創企業有限公司	British Virgin Islands	Investment holding	US$1	—	100%
Cyber-Port Limited 資訊港有限公司	Hong Kong	Property development	HK$2	—	100%
Dong Si (Holdings) Limited 盈科優質創建有限公司	Hong Kong	Provision of leasing and financing	HK$1	—	100%
Harmony TMK	Japan	Property development	JPY9,850,000,000 (JPY100,000,000 specified shares and JPY9,750,000,000 preferred shares)	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US$2	100%	—
Island South Property Management Limited 南盈物業管理有限公司	Hong Kong	Property management	HK$2	—	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
Interstate Holdings Limited	Hong Kong	Property development management	HK$3,975,836,001	—	100%
Kabushiki Kaisha Niseko Management Service	Japan	Property management and travel agency	JPY10,000,000	—	100%
Madeline Investments Limited 盈科大衍地產發展有限公司	Hong Kong	Trademark registrant	HK$2	—	100%
Melati Holding Limited	British Virgin Islands	Investment holding	US$93,612	—	100%
Nihon Harmony Resorts KK	Japan	Ski operation	JPY405,000,000	—	100%
PCPD Capital Limited	Cayman Islands	Investment holding and financing	US$1	—	100%
PCPD Facilities Management Limited	Hong Kong	Provision of property management services	HK$2	—	100%
PCPD Real Estate Agency Limited	Hong Kong	Property sales agency	HK$2	—	100%
PCPD Services Limited	Hong Kong	Provision of administrative services	HK$2	—	100%
PCPD South Village Hotel Co., Ltd.	Japan	Hotel management	JPY199,000,000	—	100%
PCPD Wealth Limited	Hong Kong	Provision of financial services	HK$1	—	100%

19. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company Directly	Equity interest attributable to the Company Indirectly
PT Prima Bangun Investama	Indonesia	Property development and management	US$26,000,000	—	100%
Rafflesia Investment Limited	British Virgin Islands	Investment holding	US$90,010	—	100%
Silvery Sky Holdings Limited	British Virgin Islands	Investment holding	US$1	—	100%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property investment	US$1	—	100%
Triple 8 KK	Japan	Property development and hotel management	JPY199,000,000	—	100%
Phang-nga Leisure Limited	Thailand	Property holding and leasing	THB2,000,000	—	39%
Phang-nga Paradise Limited	Thailand	Property holding and leasing	THB2,000,000	—	39%

Note:

1 Represents a wholly foreign owned enterprise.

20. CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of the Group's property development project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to the residential portion of the Cyberport project and will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK$508 million as at December 31, 2017 (December 31, 2016: HK$510 million) are exposed to minimum credit risk.

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20. CURRENT ASSETS AND LIABILITIES – CONTINUED

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK$93 million as at December 31, 2017 (December 31, 2016: HK$95 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

The remaining balance of HK$5 million as at December 31, 2017 represents cash deposits set aside as security for short-term performance bonds in favour of a new tenant of the Group's premium Grade A office building in Jakarta, Indonesia (note 30(b)). The cash balance of HK$8 million as at December 31, 2016 held in specific interest reserve account pledged for bank borrowings purpose has been released in the year of 2017 after the loan had been fully repaid (note 21(a)).

c. Trade receivables, net

(i) Aging analysis

An aging analysis of trade receivables, based on invoice date and before provision for receivable impairment, is set out below:

HK$ million	**2017**	2016
1 – 30 days	**12**	6
31 – 90 days	**2**	3
Over 90 days	**—**	1
	14	10

Trade receivables have a normal credit period which ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period.

(ii) Trade receivables of HK$14 million (December 31, 2016: HK$10 million) are exposed to credit risk. No trade receivable was impaired (December 31, 2016: Nil) and no provision was made as at December 31, 2017 (December 31, 2016: Nil). The amounts in trade receivables balance relate to a wide range of customers for whom there is no recent history of default.

As at December 31, 2017, trade receivables of HK$2 million were past due but not impaired (December 31, 2016: HK$4 million).

20. CURRENT ASSETS AND LIABILITIES – CONTINUED

c. Trade receivables, net – Continued

(iii) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

HK$ million	**2017**	2016
Renminbi	**3**	3
Hong Kong dollar	**2**	3
Japanese yen	**6**	4
Indonesian rupiah	**3**	—
	14	10

d. Trade payables

An aging analysis of trade payables, based on invoice date, is set out below:

HK$ million	**2017**	2016
1 – 30 days	**23**	23

e. Accruals, other payables and deferred income

Accruals, other payables and deferred income represents accruals for construction costs and operating costs, retention payables, tenants deposits and deferred rental income.

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21. BORROWINGS

HK$ million	2017	2016
Borrowings, repayable within a period		
– not exceeding one year	—	457
– over one year, but not exceeding two years	**6**	—
– over two years, but not exceeding five years	**4,438**	—
– over five years	**29**	—
	4,473	457
Representing:		
Guaranteed notes (note b)	**4,422**	—
Bank borrowings (notes a and c)	**51**	457
	4,473	457
Secured	**51**	457
Unsecured	**4,422**	—

a. On January 21, 2014, indirect wholly-owned subsidiaries of the Company entered into USD facilities agreements ("USD Facility") which the lenders would make available term loan facilities in an aggregate amount of US$200 million, comprising a term loan facility for US$140 million (the "USD Facility A") and a term loan facility for US$60 million (the "USD Facility B"), for financing the development of a premium Grade A office building in Jakarta, Indonesia. The USD Facility must be repaid on or before six months after the completion of the building or December 31, 2017, whichever is earlier. The USD Facility are secured by the shares and assets of the indirect wholly-owned subsidiaries and one of the indirectly wholly-owned subsidiaries is subjected to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. During the year ended December 31, 2017, the USD Facility B of US$60 million has been fully repaid and the USD Facility A has been cancelled.

21. BORROWINGS – CONTINUED

b. On March 9, 2017, PCPD Capital Limited ("PCPD Capital"), an indirect wholly-owned subsidiary of the Company issued US$570 million 4.75% guaranteed notes ("Notes") due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The Notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of PCPD Capital and the Company.

c. On June 9, 2017, an indirect wholly-owned subsidiary of the Company entered into a loan facility agreement which the lender had agreed to make available a term loan facility up to an aggregate amount of JPY1,500 million ("JPY Facility") by December 2018. The maturity date of the JPY Facility is December 2028. Such facility is secured by the land and buildings and a bank account of the indirect wholly-owned subsidiary and the indirect wholly-owned subsidiary is subject to certain financial covenants. As at December 31, 2017, none of the covenants were breached. As at December 31, 2017, the carrying value of the borrowing represents the loan drawdown of JPY785 million (equivalent to HK$54 million) (December 31, 2016: Nil) net off by the deferred arrangement fees of JPY46 million (equivalent to HK$3 million) (December 31, 2016: Nil).

22. AMOUNT PAYABLE TO THE HKSAR GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

Pursuant to the Cyberport Project Agreement, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") shall be entitled to receive payments of approximately 65 per cent from the surplus cashflow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the HKSAR Government is based on surplus from sales proceeds of the residential portion after the development costs of the Cyberport project. As at December 31, 2017, the amount attributable to the HKSAR Government share under Cyberport Project Agreement was HK$321 million (December 31, 2016: HK$321 million).

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23. ISSUED EQUITY

	The Group	
	Number of shares	**Issued equity HK$ million**
	(note a)	**(note a)**
Ordinary shares of HK$0.50 each at January 1, 2016	402,668,313	2,848
Shares repurchased and cancelled (note d)	(199,000)	(1)
Ordinary shares of HK$0.50 each at December 31, 2016, January 1, 2017 and December 31, 2017 (note e)	**402,469,313**	**2,847**

a. Due to the use of reverse acquisition basis of accounting (as stated in note 2(d) to the 2004 Financial Statements), the amount of issued equity, which includes share capital and share premium in the consolidated statement of financial position, represents the amount of issued equity of the legal subsidiary, Ipswich Holdings Limited, at the date of completion of the reverse acquisition plus equity changes attributable to the Group after the reverse acquisition. The equity structure (i.e. the number and type of shares) reflects the equity structure of the legal parent, Pacific Century Premium Developments Limited, for all accounting periods presented.

b. The following is the movement in the share capital of the Company:

	The Company	
	Number of shares	**Nominal value HK$ million**
Authorised:		
Ordinary shares of HK$0.50 each at December 31, 2016 and December 31, 2017	**4,000,000,000**	**2,000**
Issued and fully paid:		
Ordinary shares of HK$0.50 each at January 1, 2016	402,668,313	201
Shares repurchased and cancelled (note d)	(199,000)	—
Ordinary shares of HK$0.50 each at December 31, 2016, January 1, 2017 and December 31, 2017 (note e)	**402,469,313**	**201**

23. ISSUED EQUITY – CONTINUED

c. Pursuant to an ordinary resolution passed at the special general meeting of the Company held on May 2, 2012 and the announcements dated May 16, 2012 and June 21, 2012 in relation to the bonus issue of shares (with a right for shareholders to elect to receive bonus convertible notes in lieu of bonus shares), 405,378,544 bonus shares of HK$0.10 each were allotted and issued on June 22, 2012 on the basis of four (4) bonus shares for every one (1) issued share held by the qualifying shareholders of the Company whose names appeared on the register of members of the Company on May 30, 2012 (other than those qualifying shareholders who had elected to receive bonus convertible notes in lieu of all of their entitlement to the bonus shares).

   Bonus convertible notes of HK$592,572,154.40 at the conversion price of HK$0.10 per share were issued by the Company on June 22, 2012. Immediately after the share consolidation which took effect on June 25, 2012, the conversion price of the bonus convertible notes was adjusted from HK$0.10 per share to HK$0.50 per share pursuant to the terms of the applicable deed poll.

   The bonus convertible notes are unlisted and irredeemable but have conversion rights entitling the noteholders to convert into an equivalent number of shares as the number of bonus shares which the noteholders would otherwise be entitled to receive under the bonus issue had the shareholder not elected for the bonus convertible notes. The bonus convertible notes do not carry voting rights at any general meeting of shareholders of the Company. The noteholders can exercise the conversion rights at any time after the issue of bonus convertible notes, subject to the terms and conditions of the applicable deed poll constituting the bonus convertible notes. The bonus convertible notes were recognised as equity and are presented in "Convertible notes reserve" in the consolidated statement of changes in equity.

d. During the year ended December 31, 2016, 199,000 ordinary shares of HK$0.50 each were repurchased on the market for cancellation at total consideration of HK$575,170. These shares were subsequently cancelled after repurchase.

e. As at December 31, 2017, the number of the total issued and fully paid consolidated ordinary shares of HK$0.50 each was 402,469,313.2. Fractional shares amounted to 1.2 ordinary shares of HK$0.50 each were generated from the share consolidation on June 25, 2012 and are retained by the Company in accordance with the terms of the share consolidation. Such fractional shares are registered under the name of an indirect wholly-owned subsidiary of the Company. Amongst such 1.2 fractional shares, 0.2 shares of which are not tradable on the main board of the Stock Exchange and such 0.2 shares are not shown in this section.

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24. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement schemes

Employees of the Group are entitled to join the defined contribution retirement schemes operated by PCCW, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution retirement scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at specific rates pursuant to the rules of the MPF scheme. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

25. SHARE-BASED PAYMENT TRANSACTIONS

a. Share option scheme

The Group operates a share option scheme which was adopted by the Company's shareholders at the annual general meeting of the Company held on May 6, 2015, and became effective on May 7, 2015, following its approval by PCCW's shareholders (the "2015 Scheme"). The 2015 Scheme is valid and effective for a period of 10 years commencing on May 7, 2015.

Under the 2015 Scheme, save as disclosed in the Report of the Directors, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The exercise price of the options under the 2015 Scheme is determined by the board of directors of the Company in its absolute discretion but in any event shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the last five days preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed 30 per cent of the shares in issue from time to time. In addition, the maximum number of shares in respect of which options may be granted under the 2015 Scheme shall not (when aggregated with any shares subject to any grants made after May 7, 2015 pursuant to any other share option schemes of the Company) exceed the limit of 10 per cent of the issued share capital of the Company on May 7, 2015 (or some other date if renewal of this limit is approved by shareholders). The maximum entitlement of any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2015 Scheme is the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of one (1) per cent of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

No share options had been granted or exercised under the 2015 Scheme during the years ended December 31, 2017 and December 31, 2016. There were no share options outstanding as at December 31, 2017 and December 31, 2016.

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25. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme

PCCW established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. The Group is a participating member of the PCCW employee share incentive award schemes. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for the employee and then vest over a period of time provided that he/she remains employee of the Group at the relevant time and satisfies any other conditions specified at the time the award is made.

Details of the accounting policies for the shares granted to the employees of the Group are described in note 2(u)(iv). Since PCCW shares and HKT share stapled units were purchased, the Group recognised it as cash-settled share-based payment transaction.

A summary of movements in PCCW shares and HKT share stapled units held under the share award scheme that is attributable to the Group during the year is as follows:

	Number of PCCW shares	
	2017	2016
At January 1,	**957,342**	1,265,209
Purchased from market by the trustee at average market price of HK$5.08 per PCCW share in 2016	**—**	538,000
Vested	**(687,713)**	(845,867)
At December 31,	**269,629**	957,342

	Number of HKT share stapled units	
	2017	2016
At January 1,	**243,000**	—
Purchased from market by the trustee at average market price of HK$11.15 per HKT share stapled unit in 2016	**—**	243,000
Vested	**(121,156)**	—
At December 31,	**121,844**	243,000

25. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

Details of PCCW shares and HKT share stapled units awarded pursuant to the Purchase Scheme during the year and the PCCW shares and HKT share stapled units unvested, are as follows:

(i) Movements in the number of unvested PCCW shares and HKT share stapled units and their related weighted average fair value on the date of award

	2017		2016	
	Weighted average fair value on date of award HK$	**Number of PCCW shares**	Weighted average fair value on date of award HK$	Number of PCCW shares
At January 1,	**5.27**	**956,864**	4.89	1,264,428
Awarded (note iii)	**4.60**	**608,933**	5.20	538,303
Vested	**5.29**	**(687,713)**	4.66	(845,867)
At December 31, (note ii)	**4.78**	**878,084**	5.27	956,864

	2017		2016	
	Weighted average fair value on date of award HK$	**Number of HKT share stapled units**	Weighted average fair value on date of award HK$	Number of HKT share stapled units
At January 1,	**11.18**	**242,311**	—	—
Awarded (note iii)	**10.04**	**277,282**	11.18	242,311
Vested	**11.18**	**(121,156)**	—	—
At December 31, (note ii)	**10.39**	**398,437**	11.18	242,311

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25. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

(ii) Details of unvested PCCW shares and HKT share stapled units as at December 31,

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW shares 2017	Number of PCCW shares 2016
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	—	418,561
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	—	269,152
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	**269,151**	269,151
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	**304,467**	—
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	**304,466**	—
			878,084	956,864

Date of award	Vesting period	Fair value on the date of award HK$	Number of HKT share stapled units 2017	Number of HKT share stapled units 2016
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	—	121,156
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	**121,155**	121,155
April 3, 2017	April 3 ,2017 to April 3, 2018	10.04	**138,641**	—
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	**138,641**	—
			398,437	242,311

The PCCW shares and HKT share stapled units unvested at December 31, 2017 had a weighted average remaining vesting period of 0.60 years (December 31, 2016: 0.58 years) and 0.60 years (December 31, 2016: 0.76 years), respectively.

25. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

(iii) Details of PCCW shares and HKT share stapled units awarded during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW shares 2017	Number of PCCW shares 2016
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	—	269,152
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	—	269,151
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	**304,467**	—
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	**304,466**	—
			608,933	538,303

Date of award	Vesting period	Fair value on the date of award HK$	Number of HKT share stapled units 2017	Number of HKT share stapled units 2016
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	—	121,156
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	—	121,155
April 3, 2017	April 3 ,2017 to April 3 ,2018	10.04	**138,641**	—
April 3, 2017	April 3 ,2017 to April 3, 2019	10.04	**138,641**	—
			277,282	242,311

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25. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

c. Share-based payment transactions with cash alternatives

(i) On May 23, 2013, the Group entered into the Supporting Agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the "Supporter") under which the Group will settle part of the supporting services received for the value of US$23 million (subject to certain downward adjustments) by means of issuing non-voting, non-contributory but dividend participating class B shares that represent not more than 6.388 per cent (subject to certain downward adjustments) of the share capital in an indirect wholly-owned subsidiary ("Melati") (the "Supporter Shares") and by assignment of the shareholder's loan to Melati (the "Supporter Shareholder's Loans").

In addition, the Group granted to the Supporter a right (but not an obligation) to require the Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder's Loans assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder's Loans (the "Supporter Put Option"). The Supporter Put Option is granted at no premium.

When the consolidated net asset value of Melati is positive, the Supporter Shareholder's Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US$1.

A financial liability would be recognised in the consolidated statement of financial position in relation to the Supporter Put Option until the exercise of the Supporter Put Option by the Supporter. Management considered the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2017, therefore the fair value of the Supporter Shares is nil (December 31, 2016: Nil).

25. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

c. Share-based payment transactions with cash alternatives – Continued

(ii) On May 23, 2013, the Group entered into the Investor Subscription Agreement and the Investor Loan Purchase Agreement with an independent third party (the "Investor"), the Group will allot to the Investor 9.99 per cent shares of an indirect wholly-owned subsidiary ("Rafflesia") (the "Investor Shares") and assign to the Investor 9.99 per cent of all the unsecured and non-interest bearing shareholder's loan to Rafflesia (the "Investor Shareholder's Loans") at the time when the occupation permit of the premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99 per cent of the Group's Indonesian development project at a consideration of an amount which represents the same percentage (9.99 per cent) of the total investment cost incurred by the Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the Group granted to the Investor a right (but not an obligation) to require the Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder's Loans (the "Investor Put Option"). The Investor Put Option enables a structure which allows the Investor to realise its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option is granted at no premium.

When the consolidated net asset value of Rafflesia is positive, Investor Shareholder's Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), the Investor is required to settle the shortfall. The Investor Shares are to be issued at nominal value of US$1.

Management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2017, therefore the fair value of the Investor Shares is nil (December 31, 2016: Nil).

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26. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

a. Statement of Financial Position of the Company

HK$ million	Note	2017	2016
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary		**2,870**	2,870
Current assets			
Prepayments		**1**	—
Amounts due from subsidiaries		**7,063**	7,069
		7,064	7,069
Current liabilities			
Accruals and other payables		**2**	2
Amount due to a subsidiary		**4,701**	4,701
		4,703	4,703
Net current assets		**2,361**	2,366
Total assets less current liabilities		**5,231**	5,236
Net assets		**5,231**	5,236
CAPITAL AND RESERVES			
Share capital	23(b)	**201**	201
Reserves	26(b)	**5,030**	5,035
		5,231	5,236

Lee Chi Hong, Robert
Director

James Chan
Director

26. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – CONTINUED

b. Reserves of the Company

	2017				
HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Retained earnings	Total
Balance at January 1, 2017	**2,448**	**1**	**592**	**1,994**	**5,035**
Total comprehensive loss for the year	**—**	**—**	**—**	**(5)**	**(5)**
Balance at December 31, 2017	**2,448**	**1**	**592**	**1,989**	**5,030**

	2016				
HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Retained earnings	Total
Balance at January 1, 2016	2,449	1	592	1,999	5,041
Total comprehensive loss for the year	—	—	—	(5)	(5)
Shares repurchased and cancelled (note 23(d))	(1)	—	—	—	(1)
Balance at December 31, 2016	2,448	1	592	1,994	5,035

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27. DEFERRED INCOME TAX

a. The components of deferred income tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

HK$ million	Accelerated tax depreciation	Revaluation of properties	Others	Total
At January 1, 2016	2	5	12	19
Charged to the consolidated statement of comprehensive income	1	—	2	3
At December 31, 2016	3	5	14	22
At January 1, 2017	**3**	**5**	**14**	**22**
Charged to the consolidated statement of comprehensive income	—	—	**3**	**3**
At December 31, 2017	**3**	**5**	**17**	**25**

There were no deferred income tax assets netted off against deferred income tax liabilities recognised in the consolidated statement of financial position as at December 31, 2017 (December 31, 2016: Nil).

b. The deferred income tax liabilities as at December 31, 2017 of HK$25 million (December 31, 2016: HK$22 million) are expected to be recovered after more than 12 months.

c. The Group has unrecognised estimated tax losses of HK$449 million as at December 31, 2017 (December 31, 2016: HK$420 million) to be carried forward for deduction against future taxable profits. HK$205 million (December 31, 2016: HK$197 million) tax losses relating to subsidiaries operating outside Hong Kong would be expired within one to nine years from December 31, 2017 (December 31, 2016: one to nine years). The remaining HK$244 million (December 31, 2016: HK$223 million) tax losses are mainly related to Hong Kong companies which can be carried forward indefinitely.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of loss before taxation to net cash used in operating activities

HK$ million	2017	2016
Loss before taxation	(314)	(346)
Adjustments for:		
– interest income	(59)	(11)
– finance costs	85	—
– depreciation	22	19
– fair value loss on the derivative financial instrument	—	60
– gain on an impaired financial instrument upon liquidation	—	(3)
– fair value gain on financial assets at fair value through profit or loss	(1)	—
– loss on disposal of property, plant and equipment	4	—
– reversal of provision related to disposal of subsidiaries in prior years	(11)	—
Operating loss before changes in working capital	**(274)**	(281)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 (Amount expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

a. Reconciliation of loss before taxation to net cash used in operating activities – Continued

HK$ million	2017	2016
(Increase)/decrease in operating assets:		
– properties under development	(185)	(29)
– properties held for development	(5)	(13)
– other financial assets	4	(1)
– non-current prepayment and other receivables	(55)	(73)
– prepayments, deposits and other current assets	(16)	(5)
– sales proceeds held in stakeholders' accounts	2	3
– restricted cash	5	(7)
– trade receivables, net	(3)	(3)
– amounts due from fellow subsidiaries	1	—
– amounts due from related companies	—	(3)
Increase/(decrease) in operating liabilities:		
– trade payables, accruals, other payables and deferred income	60	(14)
– deposits received from pre-sale of properties	69	—
– amounts due to fellow subsidiaries	—	(1)
– amount payable to the HKSAR Government under the Cyberport Project Agreement	—	(1)
– other non-current payables	57	20
Cash used in operations	(340)	(408)
Interest received	42	11
Tax paid		
– in Hong Kong	(1)	(1)
– outside Hong Kong	(21)	(13)
Net cash used in operating activities	(320)	(411)

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

b. Movements of liabilities in the consolidated statement of financial position arising from financing activities

HK$ million	Prepaid finance costs (included in prepayments, deposits and other current assets)	Short-term borrowings	Interest payables (included in accruals, other payables and deferred income)	Long-term borrowings	Total
At January 1, 2017	(26)	457	—	—	431
Cash flows in financing activities					
Proceeds from bank borrowings, net	—	—	—	52	52
Proceeds from issue of guaranteed notes, net	—	—	—	4,391	4,391
Borrowing costs paid	(2)	(4)	(106)	—	(112)
Repayment of bank borrowing	—	(465)	—	—	(465)
Cash flows in financing activities	(28)	(12)	(106)	4,443	4,297
Non-cash changes	28	12	172	30	242
At December 31, 2017	—	—	66	4,473	4,539

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29. COMMITMENTS

a. Capital

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

HK$ million	**2017**	2016
Contracted but not provided for		
Property development projects	**167**	34
Investment properties	**19**	472
Property, plant and equipment	**290**	11
	476	517

b. Operating leases

(i) As at December 31, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings (as lessee)

HK$ million	**2017**	2016
Within one year	**35**	45
After one year but within five years	**82**	21
After five years	**—**	7
	117	73

The leases typically run for an initial period of three months to seven years (2016: three months to ten years). One (2016: one) of the leases includes contingent rental with reference to the revenue of the lessee operation.

29. COMMITMENTS – CONTINUED

b. Operating leases – Continued

(i) As at December 31, the total future minimum lease payments under non-cancellable operating leases are payable as follows – Continued:

Equipment (as lessee)

HK$ million	2017	2016
Within one year	**2**	1
After one year but within five years	**1**	1
	3	2

The leases typically run for an initial period of six months to six years (2016: one year to six years). None of these leases include contingent rentals (2016: none).

(ii) The Group leases out properties under operating leases. The leases typically run for an initial period of two to ten years (2016: one to six years). One (2016: One) of the leases includes contingent rentals with reference to the revenue of the lessee operations.

As at December 31, the total future minimum lease receivables under non-cancellable operating leases are as follows:

Land and buildings (as lessor)

HK$ million	2017	2016
Within one year	**57**	13
After one year but within five years	**353**	—
After five years	**320**	—
	730	13

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30. GUARANTEES

Save as disclosed elsewhere in the consolidated financial statements,

a. On March 9, 2017, the Company had executed guarantees in favour of the note holders of the Notes, in principal amount of US$570 million issued by PCPD Capital (note 21(b)).

b. Pursuant to the lease arrangement with a new tenant of the premium Grade A office building in Jakarta whom will pay the full rental for the initial term of the lease immediately after signing the lease agreement, a performance bond was issued at Indonesian rupiah 6,500 million (equivalent to HK$3.74 million) and will be cancelled upon the lease commencement date expected by June 1, 2018. Same amount of cash deposit is placed with the bank issuing the performance bond for security (note 20(b)).

31. BANKING FACILITY

The banking facility as at December 31, 2017 was HK$104 million (December 31, 2016: HK$1,551 million) of which HK$50 million remained undrawn by the Group (2016: HK$1,086 million) (note 21).

Security pledged for the banking facilities includes:

HK$ million	**2017**	2016
Investment property	—	3,214
Property, plant and equipment	**89**	2
Other current assets	—	87
Restricted cash	—	8
Cash & cash equivalents	—	88
	89	3,399

During the year of 2017, the security pledged for the USD Facility has been released subsequent to the repayment and cancellation of the USD Facility (note 21(a)).

As at December 31, 2016, performance guarantee of approximately HK$161 million received in relation to the construction of the premium Grade A office building in Jakarta, Indonesia was pledged for certain banking facilities. This pledge was also released during the year of 2017.

32. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 70.83 per cent (2016: 70.83 per cent) of the Company's shares. The remaining 29.17 per cent (2016: 29.17 per cent) of the shares are held by public as at December 31, 2017.

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the following transactions were carried out with related parties:

a. During the year, the Group had the following significant transactions with related companies:

HK$ million	**2017**	2016
Sales of services:		
– Fellow subsidiaries		
Office leases rental	**2**	4
– Related companies		
Facility management services	**7**	32
Office leases rental	**1**	—
Other services	**3**	1
Purchases of services:		
– Fellow subsidiaries		
Corporate services	**3**	4
Information technology and other logistic services	**3**	3

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

b. Details of key management compensation

HK$ million	2017	2016
Salaries and other short-term employee benefits	17	16
Bonuses	—	8
Directors' fee	1	1
Retirement scheme contribution	2	2
	20	27

c. Year-end balances arising from sales of services

HK$ million	2017	2016
Receivables from related parties:		
– Fellow subsidiaries	—	1
– Related companies	6	6
	6	7

33. FINANCIAL RISK MANAGEMENT

The Group's investment policy is to prudently invest all surplus funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

Financial risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's business units. The Board provides principal policies for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

a. Foreign exchange risk

At the reporting date, the Group's exposure to foreign currency risk arising from significant recognised financial assets is as follows:

HK$ million	**2017 US dollar**	2016 US dollar
Other financial asset	**79**	—
Cash and cash equivalents and short-term deposits	**3,354**	430
	3,433	430

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The risk management policy is to have the liquid assets mainly denominated in Hong Kong dollars and US dollars. As US dollar is pegged to Hong Kong dollar, the Group does not expect any significant movements in the US dollar/Hong Kong dollar exchange rate. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. In addition, the Group may use derivative financial instruments to hedge the risk exposure when appropriate.

The Group has certain investments in foreign operations, where the net assets are exposed to foreign currency translation risk. The Group's currency exposures with respect to these operations are mainly from Thai baht, Japanese yen and Indonesian rupiah. To manage the risk of foreign currency exposure arising from the Group's net investment in foreign operation in Indonesia, the Group may use different tools such as currency options.

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33. FINANCIAL RISK MANAGEMENT – CONTINUED

a. Foreign exchange risk – Continued

Sensitivity analysis for foreign currency exposure

The table below summaries the impact on profit after tax and equity if Hong Kong dollar had appreciated by, one (1) per cent against US dollar or five (5) per cent against other currencies including Thai baht, Japanese yen and Indonesian rupiah at December 31, 2017. This represents the translation of financial assets and liabilities at the end of the reporting period. It assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

HK$ million	**2017** Increase in profit after tax	**2017** Decrease in other comprehensive income for currency translation	2016 Decrease in profit after tax	2016 Increase/(Decrease) in other comprehensive income for currency translation
US dollar	**11**	**—**	(4)	4
Thai baht	**—**	**(29)**	—	(27)
Japanese yen	**—**	**(46)**	—	(30)
Indonesian rupiah	**—**	**(182)**	—	(158)

b. Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay outstanding amounts in full when due. The Group has policies in place to ensure that the pre-sale of the properties is binding and enforceable. For the property investment and other business segments, the Group obtained rental deposits from the tenants while for other businesses, certain customers are fellow subsidiaries and related parties which the credit risk is relatively low and other individual customers are with good repayment history.

As at December 31, 2017, the Group has a certain concentration of credit risk as 57 per cent (December 31, 2016: 67 per cent) of the total trade receivables was due from three customers.

33. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk – Continued

The credit quality of cash and cash equivalents, short-term deposits and restricted cash balances can be assessed by reference to Moody's ratings (if available) as follows:

Cash and cash equivalents

HK$ million	**2017**	2016
Aa2	**—**	25
Aa3	**37**	91
A1	**1,017**	429
A2	**640**	155
A3	**794**	75
Baa1	**—**	13
Baa2	**17**	6
Baa3	**—**	50
Unrated	**128**	24
	2,633	868

Short-term deposits

HK$ million	**2017**	2016
A1	**1,017**	—
Baa2	**2**	3
	1,019	3

Restricted cash

HK$ million	**2017**	2016
Aa2	**93**	95
Aa3	**—**	8
Unrated	**5**	—
	98	103

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33. FINANCIAL RISK MANAGEMENT – CONTINUED

c. Liquidity risk

Due to the dynamic nature of the Group's underlying businesses, prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet operational needs and possible investment opportunities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on most current interest rates at the end of the reporting period).

HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
At December 31, 2017						
Trade payables	**23**	**—**	**—**	**—**	**23**	**23**
Accruals and other payables	**443**	**—**	**—**	**—**	**443**	**443**
Amount payable to the HKSAR Government under the Cyberport Project Agreement	**321**	**—**	**—**	**—**	**321**	**321**
Long-term borrowings (including interest)	**213**	**430**	**4,725**	**39**	**5,407**	**4,473**
Other non-current payables	**—**	**42**	**—**	**180**	**222**	**206**
At December 31, 2016						
Short-term borrowings (including interest)	479	—	—	—	479	457
Trade payables	23	—	—	—	23	23
Accruals and other payables	297	—	—	—	297	297
Amount payable to the HKSAR Government under the Cyberport Project Agreement	321	—	—	—	321	321
Other non-current payables	—	48	—	178	226	208

33. FINANCIAL RISK MANAGEMENT – CONTINUED

d. Interest rate risks

Apart from the cash and cash equivalents and short-term deposits which are for working capital, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table details the interest rate profile of the Group's borrowings.

	2017		2016	
	Effective interest rate	**HK$ million**	Effective interest rate	HK$ million
Fixed rate borrowings:				
Guaranteed notes (note 21)	**4.88%**	**4,422**	—	—
Variable rate borrowings:				
Bank borrowings (note 21)	**2.69%**	**51**	5.18%	457
Total borrowings		**4,473**		457

If interest rate on variable rate borrowings had increased/decreased by 50 basis points as at December 31, 2017 (2016: 50 basis points) with all other variables held constant, the Group's finance cost for the year ended December 31, 2017 would record a minimal change (2016: HK$2 million) and the Group's profit after tax would remain unchanged (2016: unchanged), taking into account of the capitalisation of finance cost into investment properties and property, plant and equipment.

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34. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as short-term and long-term borrowings less cash and cash equivalents. Adjusted capital comprises the issued equity and retained earnings.

The debt-to-adjusted capital ratios at December 31, 2017 and December 31, 2016 are as follows:

HK$ million	2017	2016
Short-term borrowings	—	457
Long-term borrowings	4,473	—
Less: Cash and cash equivalents	(2,633)	(868)
Net debt	**1,840**	(411)
Issued equity	2,847	2,847
Add: Retained earnings	2,330	2,670
Adjusted capital	**5,177**	5,517
Debt-to-adjusted capital ratio	**36%**	—

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the financial covenant requirements under the loan facility agreement with external party (note 21).

35. FAIR VALUE ESTIMATION

a. Financial instruments carried at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

See note 14 for disclosure of the investment properties that are measured at fair value.

	2017			
HK$ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Other financial assets	**2**	**79**	**—**	**81**

	2016			
HK$ million	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Other financial assets	7	—	—	7

During the years ended December 31, 2017 and December 31, 2016, there were no transfers of financial instruments between different levels. There were no changes in valuation techniques during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. FAIR VALUE ESTIMATION – CONTINUED

b. Fair value of financial liabilities measured at amortised cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2017 and December 31, 2016 except as follows:

	2017		2016	
HK$ million	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Guaranteed notes	**4,422**	**4,545**	—	—

The significant inputs required for the fair value measurement of the guaranteed notes are observable. The fair value of the guaranteed notes is within level 2 of the fair value hierarchy.

35. FAIR VALUE ESTIMATION – CONTINUED

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed equity investments classified as other financial assets.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instrument included in level 2 comprises an investment in liquidity fund classified as other financial assets.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Dealer quoted price, taking into account of the spot and forward exchange rates that are quoted in an active market and the observable yield curves and the implied volatility; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

36. EVENTS AFTER THE REPORTING DATE

As disclosed in the joint announcement of PCCW and the Company dated January 15, 2018 (the "Joint Announcement") in relation to the proposed joint redevelopment of the properties at Nos. 3-6 Glenealy, Central, Hong Kong (the "Properties"), by the Group and CSI Properties Limited, the Company, through its indirect wholly-owned subsidiary (the "Purchaser") will, subject to certain conditions as disclosed in the Joint Announcement, acquire the equity interest of the target group holding the Properties. Under the sale and purchase agreement, the consideration includes cash consideration of HK$2,018 million (subject to adjustments) and the allotment and issue of the non-voting participating share which is entitled to 50 per cent of the dividends declared or distributions by the Purchaser. An initial deposit of HK$100 million was placed with the stakeholder on January 15, 2018. The transaction is expected to be completed in the first half of 2018. For details, please refer to the Joint Announcement.

FIVE-YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

Results

HK$ million	**2017**	2016	2015	2014	2013
Revenue by Principal Activities					
Property development	**—**	—	—	—	283
Property investment	**5**	2	2	151	237
All-season recreational activities	**96**	92	78	77	72
Other businesses	**63**	80	85	87	82
	164	174	165	315	674
Operating (loss)/profit	**(288)**	(357)	(280)	381	490
Gain on disposal of subsidiaries, net of tax	**—**	—	—	1,390	—
Finance (costs)/income, net	**(26)**	11	12	(65)	(197)
(Loss)/profit before taxation	**(314)**	(346)	(268)	1,706	293
Income tax	**(26)**	(18)	187	(215)	(216)
(Loss)/profit attributable to equity holders of the Company	**(340)**	(364)	(81)	1,491	77

Assets and Liabilities, as at December 31,

HK$ million	**2017**	2016	2015	2014	2013
Total non-current assets	**5,880**	4,665	3,375	3,129	9,773
Total current assets	**4,469**	1,663	2,890	4,368	2,564
Total current liabilities	**(910)**	(1,102)	(777)	(1,748)	(3,906)
Net current assets/(liabilities)	**3,559**	561	2,113	2,620	(1,342)
Total assets less current liabilities	**9,439**	5,226	5,488	5,749	8,431
Total non-current liabilities	**(4,778)**	(280)	(233)	(187)	(2,932)
Net assets	**4,661**	4,946	5,255	5,562	5,499

SCHEDULE OF PRINCIPAL PROPERTIES

1 Major completed properties for investment and/or own use

Address	Use	Approximate gross site area (sq.m.)	Approximate gross floor area (sq.m.)	Category of the lease*	Percentage held by the Group
Indonesia					
Pacific Century Place, Jakarta Jenderal Sudirman Kav. No. 52-53 Lot 10 Senayan, Kebayoran Baru South Jakarta, Indonesia	Commercial	9,277	93,316	Medium	100%
Japan					
Midtown EAST @ Niseko 91-3 Aza Yamada, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Eco Hotel	2,913	2,448	Freehold	100%

* Medium term: Lease less than 50 years but not less than 10 years

SCHEDULE OF PRINCIPAL PROPERTIES

2 Major properties under development for sale and/or own use

Address	Use	Stage of completion	Expected date of completion	Approximate gross site area (sq.m.)	Approximate gross floor area (sq.m.)	Percentage held by the Group
Japan						
Park Hyatt Niseko Hanazono Residences	Residential	Construction in progress	2019	24,118	32,661	100%
Park Hyatt Hotel	Hotel	Construction in progress	2019	20,448	23,375	100%
Remaining phases	Commercial and residential	Design phase	N/A	743,944	563,670	100%
328-1 Aza Iwaobetsu, Kutchan-cho, Abuta-gun, Hokkaido, Japan						
Midtown WEST @ Niseko 91-17 Aza Yamada, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Eco Hotel	Construction in progress	2019	7,007	11,170	100%

3 Major property held for development

Address	Approximate gross site area (sq.m.)	Percentage held by the Group
Thailand		
Moo 3 & 9, Thai Muang Subdistrict, Thai Muang District Phang-nga, 82120 Thailand	1,700,465	39%

INVESTOR RELATIONS

LISTING

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited and the stock code is 00432.

Any enquiries regarding the Company should be addressed to Investor Relations at the address provided on this page.

BOARD OF DIRECTORS

Executive Directors

Li Tzar Kai, Richard *(Chairman)*
Lee Chi Hong, Robert *(Deputy Chairman and Chief Executive Officer)*
James Chan

Non-Executive Director

Dr Allan Zeman, GBM, GBS, JP
(re-designated as non-executive director effective from March 16, 2018)

Independent Non-Executive Directors

Prof Wong Yue Chim, Richard, SBS, JP
Chiang Yun
Dr Vince Feng *(appointed as independent non-executive director effective from March 16, 2018)*

COMPANY SECRETARY

Tsang Sai Chung

REGISTERED OFFICE

Clarendon House 2 Church Street
Hamilton HM 11 Bermuda

INVESTOR RELATIONS

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Fax: +852 2514 2905

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road, Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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BONUS CONVERTIBLE NOTE REGISTRAR

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APPENDIX

Sustainability Report 2017

CONTENTS

About PCPD's Sustainability Report

This is the second sustainability report published by Pacific Century Premium Developments Limited (hereinafter referred to as 'PCPD' or 'the Group') (Stock Code: 00432) to demonstrate its commitment and progress towards operating a sustainable business. PCPD's majority owner is "PCCW" (Stock Code: 00008). The Company is primarily involved in developing and managing properties with investments in premium-grade buildings, luxury resorts and hotels in Hong Kong and in other parts of the world.

The report is prepared in accordance with the 'comply or explain' provisions of the Environmental, Social and Governance (ESG) Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (HKEX Reporting Guide).

This report covers the period from 1 January to 31 December 2017.

For enquiries, please send questions or comments to Investor Relations Department by e-mail (ir@pcpd.com) or by post (8th Floor Cyberport 2, 100 Cyberport Road, Hong Kong).

SCOPE OF THE REPORT

Similar to our 2016 Sustainability Report, this report covers PCPD's operations in Hong Kong, project developments in Japan, Indonesia and Thailand, as well as hospitality and leisure services in Japan. The scope of this report reflects PCPD's role as a property developer, investor, manager and operator.

MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

Local and national governments made major strides in addressing climate change this year. With the publication of Hong Kong's Climate Action Plan 2030+ and China's commitment to becoming a global leader in addressing climate change, we as a responsible corporate citizen must be part of the solution.

SETTING A PRECEDENT FOR THE INDUSTRY

Minimising our own carbon footprint is not enough. We believe that as a player in the property development industry, we must continue to set stretch targets and inspire our peers and competitors so that we can motivate each other to do better, to do more. With the completion of our flagship building, Pacific Century Place, Jakarta ("PCP, Jakarta"), in October 2017, we will be managing the first LEED Platinum Certified building in Indonesia. To ensure that we maintain high environmental performance throughout its operation, we are applying for Green Mark and Greenship certifications, which require third-party assessments on our environmental performance every three years for recertification. We aim to set a precedent for the industry, maintaining high expectations for our environmental performance throughout the lifecycle of our buildings.

RELATIONSHIP WITH LOCAL COMMUNITIES

For our ski operation in Japan, we are fortunate to have the support of local communities and authorities. This has not only facilitated engagement but also fostered relationships beyond our business. Getting to know the local people over the past years, we are now more aware of their aspirations and needs. These connections have simplified the process of identifying opportunities to create shared value between our business and the local communities. We started providing financial support to a local language school to help improve the English skills of local youth. This will not only offer better opportunities for their careers in the future, it creates opportunities for our resort to recruit local residents in the long run. We believe that by thoroughly understanding the needs of the local communities, we can create new opportunities together.

NEW CHALLENGES AHEAD

As we begin the early design stage for our Phang Nga project in Thailand, we will carry with us the valuable wisdom gained from developing and managing our diversified portfolio. Given the project's sensitive environmental conditions, we will continue to work closely with specialists, government departments and local communities to identify the best solutions to incorporate our design. Our experience shows that this coastal development, which is vulnerable to rising sea levels, will require us to be innovative, diligent and strategic. Unlike our other developments, this project requires resilience to climate change as key to long-term success.

Our capacity to incorporate sustainable development opportunities increases with every new project. New lessons are learned and new ideas are developed. We believe that in order to maintain high standards of luxury for our customers, we must have a positive social, economic and environmental impact on the local communities where we operate.

Richard Li
Chairman

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Stakeholders,

For more than a decade, PCPD has provided high-quality luxury properties and services despite the changing expectations of our customers. In the recent years, we have come to learn that operating a successful business is more than just meeting shareholders' and customers' needs. It is also about being responsible to our people, the community and the environment. As we continue our journey as a property developer, manager and investor, we shall identify opportunities to create shared value wherever we operate.

LUXURY COMPLIMENTS SUSTAINABILITY

Sustainability does not mean compromising quality and luxury. In fact, our goal towards operating a more sustainable business demonstrates that sustainability and luxury can co-exist and complement each other. With the new generation of consumers who would consider a company's sustainability performance as a deciding factor, sustainable luxury has evolved into a business opportunity. We are embarking on a new era where the value of incorporating sustainability principles into various aspects of a business is increasingly prominent. We see that simply adopting environmentally friendly design and technology is not enough. We must incorporate sustainability into our workforce, supply chain and local communities. At the same time, we must recognise that the needs and expectations of our customers continue to change.

OUR ACHIEVEMENTS IN 2017

After publishing our first Sustainability Report last year, we continued with our efforts towards operating a sustainable business with forward-looking plans. As a goal-driven business, we are in the process of developing our three-year Sustainability Action Plan. The plan will target sustainability issues that matter most to PCPD, alongside with areas where our operations have the most impact.

Our increased effort in engaging the local communities where we operate indicates that working with them opens doors for opportunities in the long run. We made great strides in 2017 with increased engagement and interaction with local people, especially in Japan and Hong Kong. By reaching out to local residents, interest groups and the government we are fostering close relationships with our neighbours. We believe that these relationships will evolve over time and facilitate the identification of shared value opportunities.

TASKS IN THE UPCOMING YEAR

Our main focus for the upcoming year will revolve around fine-tuning our sustainability strategy whilst communicating our sustainability objectives to our employees group-wide, as well as across all regions. Major tasks include:

- Begin embedding sustainability throughout our organisation and within our value chain
- Increasing our employees' knowledge and capacity in sustainability
- Engaging with key stakeholders, including customers, employees, local communities, supplier and contractors

I would like to extend my gratitude to all those who have helped us achieve our accomplishments since the first day of our business. With the support of our customers, employees, neighbours, business partners and investors, our journey to success continues to be perpetual. It gives me great pleasure to present to you this year's sustainability report and I wish everyone a successful and healthy year ahead.

Robert Lee
Deputy Chairman and Chief Executive Officer

Our Business

PCPD at a Glance

Founded and headquartered in Hong Kong, our business started off as a local property developer and manager. Having been in business for 14 years, our operations now spread across Asia with a workforce of over 700 employees.

Total Number of Employees Group-wide
769

Headquartered in Hong Kong

Number of years in business
14 Years

Male **3:2** Female

Ratio of male and female employees

PCPD's business primarily engages in development and management of premium-grade property and infrastructure projects as well as investment in premium-grade property. We divide our business into three main categories:

(1) Property Investment & Development (2) Recreation & Leisure (3) Property Management Services

Property Investment & Development

- PT Prima Bangun Investama ('PBI') — Indonesia
- Harmony TMK — Japan
- Phang-nga Paradise Limited and Phang-nga Leisure Limited — Thailand

Recreation & Leisure

- Nihon Harmony Resorts KK ('NHR') — Japan

Property Management Services

- Island South Property Management Limited ('ISPML') — Hong Kong
- Kabushiki Kaisha Niseko Management Service ('NMS') — Japan

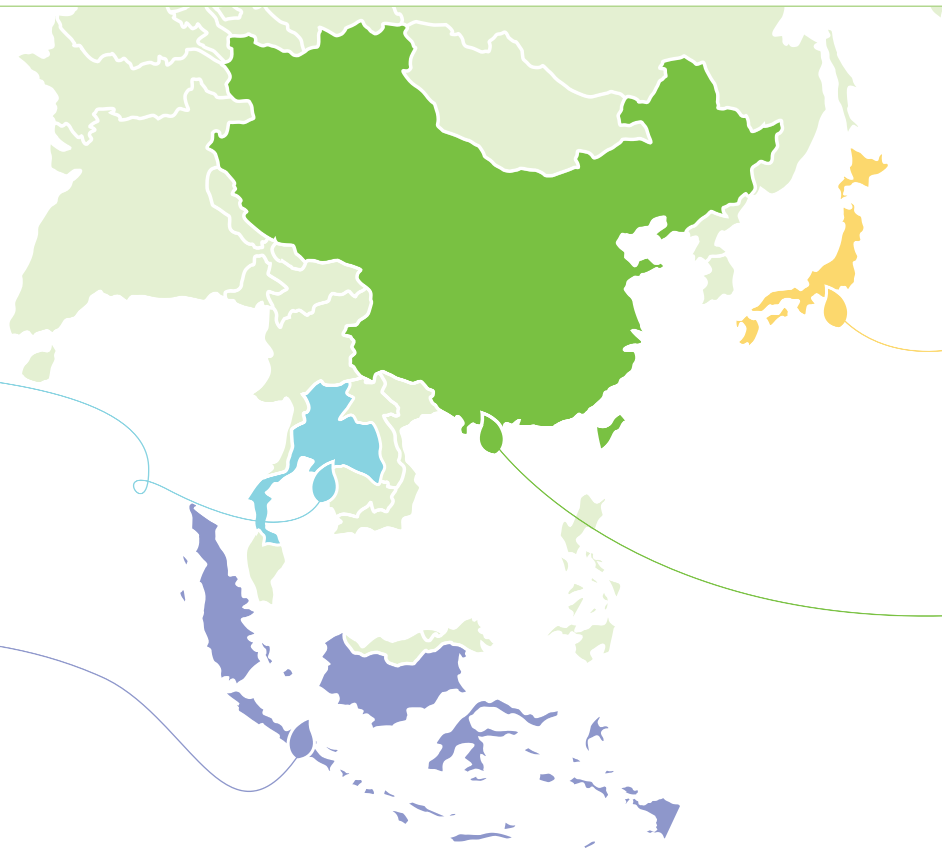
Our locations of property investments and operations are spread throughout various parts of Asia, covering Hong Kong, Indonesia, Japan and Thailand. Hong Kong remains our largest operating region where the majority of our staff is located, followed by Japan.

Legend

Property Investment & Development

Recreation & leisure

Property Management Services



Thailand and other locations

Employees - 18

Indonesia

Employees - 24

Japan

Employees - 303

Hong Kong

Employees - 424

Properties under Development

Project:	Usage:	Size:	Year of Completion:
Pacific Century Place ("PCP, Jakarta")	Commercial	Total GFA: Over 90,000 square metres	October 2017
Park Hyatt Niseko Hanazono, Hokkaido*	Hotel	Approximately 100 rooms	2019 (scheduled)
Park Hyatt Niseko Hanazono Residences, Hokkaido*	Hotel / residential	More than 100 units	2019 (scheduled)
Phang-nga, Southern Thailand	Residential / hospitality	Overall site area: approximately 1,700,000 square metres	Planning stage

Properties under Management

Project:	Usage:	Size:	Year of Completion:
Residence Bel-Air, Hong Kong	Residential	Large – over 2,000 luxury residence	2008
ONE Pacific Heights, Hong Kong	Residential	Medium – over 100 luxury boutique apartments	2009
Gough Hill, Hong Kong	Residential	Small – fewer than 10 residential houses	2003
Park Hyatt Niseko Hanazono Residences, Hokkaido	Residential / hospitality	Medium – over 100 all-season units	2019 (scheduled)

Size:

Small (fewer than 100 units) Medium (between 100 to 2,000 units) Large (more than 2,000 units)

* Disclaimer: The image depicting the project as envisaged when completed is a computer-generated rendering based on drawings prepared in the project planning stage that may be subject to revision, and therefore, may differ from the actual completed building and site in shape, color, and other details. The height and shape of some buildings in the vicinity of the site are shown for illustrative purposes and may differ from the actual state.

OUR COMMITMENT TO SUSTAINABILITY

Sustainability is more than just creating and managing structures where people live, work and play, it involves considering the wider economic, environmental and social implications of our decisions and actions as a company. We operate our business consciously by making sure minimal environmental impacts arise from our activities. Through green designs and state-of-the-art technology, we implement ways to reduce our emissions and waste, as well as to conserve natural resources. We offer a built-environment that enhances the physical and psychological well-being of people by incorporating public facilities and space. We put forth efforts to create shared value for the communities in which we operate. Through facilitating greater social engagement, we foster strong relationship with the local communities.

SUSTAINABILITY VISION AND POLICY

Our vision for sustainability is to conduct business in a responsible manner that protects the environment, benefits the communities in which we operate, and creates value for our customers, partners, and employees while enhancing the long-term success of our company.

Our Group Sustainability Policy describes our commitments and is available at http://www.pcpd.com/html/eng/about/PCPD%20Sustainability%20Policy-English.pdf and in the Supporting Information section of this report. To further clarify our stance on different sustainability-related topics, the Group also actively implements the following policies:

- Emission Policy
- Managing Environmental and Social Risk of Supply Chain Policy
- Energy and Water Management Policy
- Community Engagement Policy
- Bribery, Gifts & Entertainment Policy
- Environment and Natural Resources Policy
- Occupational Safety and Health Policy
- Improper Conduct Notification Policy

This year, we began translating these policies into Japanese, Bahasa Indonesia and Thai so that staff from other operating countries can better understand the details outlined within.

THREE-YEAR SUSTAINABILITY ACTION PLAN

This year, we began to develop our 3-year Sustainability Action Plan. As the first step, we have identified five focus areas related to our environmental and social performances. These focus areas were determined through a series of workshops involving our Sustainability Committee which were considered as areas with improvement opportunities. Environment-related focus areas address the key environmental impacts our operations could impose if not properly managed, whereas the social performance focus areas were areas which we believe have room for improvement and are worthy of exploring.

Our 5 Focus Areas

Waste Reduction

Energy Efficiency

Protection of the Natural Environment

Community Engagement

Employee Well-being

Our goal for the upcoming year is to formulate or revise our existing policies and statements on these topics. Once we have defined our objectives and stances through policies and statements, we plan to identify and implement the necessary measures to meet these objectives. To determine its effectiveness, we will be closely monitoring our progress for the many years to come.

2017

Focus areas were identified by Sustainability Committee

2018

Formulate/revise Group-wide polices and statements related to focus areas

2019

Identify and implement measures required to address focus areas

2020 onwards

Monitor progress

MANAGING OUR VALUE CHAIN SUSTAINABLY

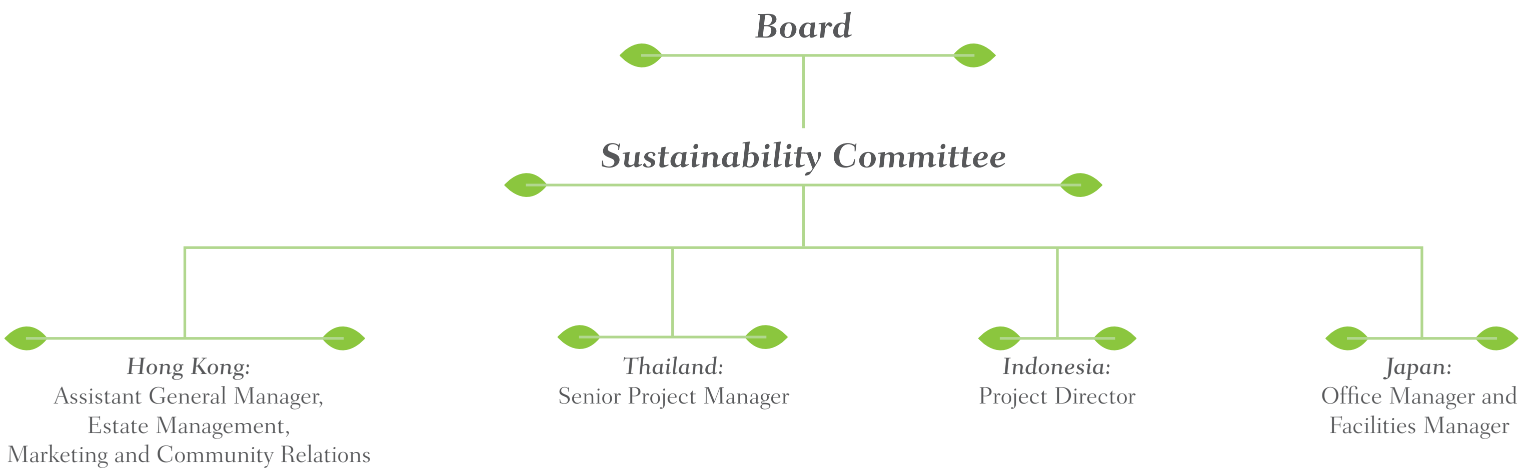
We integrate sustainability into our value chain by considering the environment, employees, the local communities and our customers throughout different stages of our projects.

	Planning and Development	*Construction*	*Pre-Sales / Sales / Leasing / Pre-handover*	*Post-handover Operations/ Asset Management*
Environment	Indoor air quality Energy and water performance Avoidance of heat island effect	Materials and resources Construction waste management Construction phase environmental impacts	Materials and Resources	Green building certification Indoor Environmental Quality Energy and water performance Customer engagement on environmental issues
People	Socio-economic Impact (i.e. connectivity, land acquisition) Stakeholder consultation Fair and rewarding workplace	Supplier management Healthy and safe work place Fair and rewarding workplace Talent attraction and retention	Fair and rewarding workplace	Supplier management Healthy and safe work place Fair and rewarding workplace Local community engagement
Customer	Inclusive design	Product quality	Service excellence Product quality	Resident / owner engagement Service excellence

CSR GOVERNANCE STRUCTURE

The Board of Directors ("the Board") provides overarching support for sustainability initiatives at all levels. Under the direction of the Board, our Sustainability Committee ("the Committee") steers and promotes sustainability efforts. The Company's corporate governance practices and procedures are monitored by the Board. Effective risk management and internal control systems are in place to ensure the Company and its employees operate in compliance with all relevant rules and regulations.

CSR Governance Structure



To manage sustainability efforts effectively and in an organised manner, we established the Committee in 2016. The Committee is chaired by the Company Secretary and comprised members from management teams from different functions across the Group. Selected committee members are responsible for implementing environmental and social initiatives by engaging appropriate staff members on their respective teams on various levels of operations. Quarterly meetings are held to discuss and report on sustainability-related initiatives, effectiveness of approach and progress made. The Committee is also responsible for designing sustainability policies, guidelines and procedures, as well as progress of the sustainability strategy.

Since its establishment, the Committee has strengthened our strategic approach to sustainability. The Committee has revamped the Sustainability Policy, began developing our 3-year Sustainability Action Plan and effectively facilitated communication with regard to sustainability manners between the Board and management.

ENGAGING OUR STAKEHOLDERS

Engaging our stakeholders not only allows us to better understand their expectations and needs, it also creates opportunities to build stronger relationships and to improve the quality of our services. We maintain communication with our stakeholders through various platforms such as e-mails, newsletters, reports, press releases and meetings.

STAKEHOLDER GROUP

Customers

- Customer satisfaction survey
- Guest satisfaction survey
- Newsletters (GREEN News)
- Mobile app (Bel-Air App)

Community

- Newsletters to residents of our managed properties
- Press releases

Business Partners

- Newsletter
- Direct communication
- Supplier training, workshops and forms

Employees

- Employee satisfaction surveys
- Internal communication
- Communication with employee representatives

Investors

- Annual meetings
- Press release
- Annual and interim reports
- Sustainability report
- Direct communication

NGOs

- Collaborative projects, donations support for various programmes

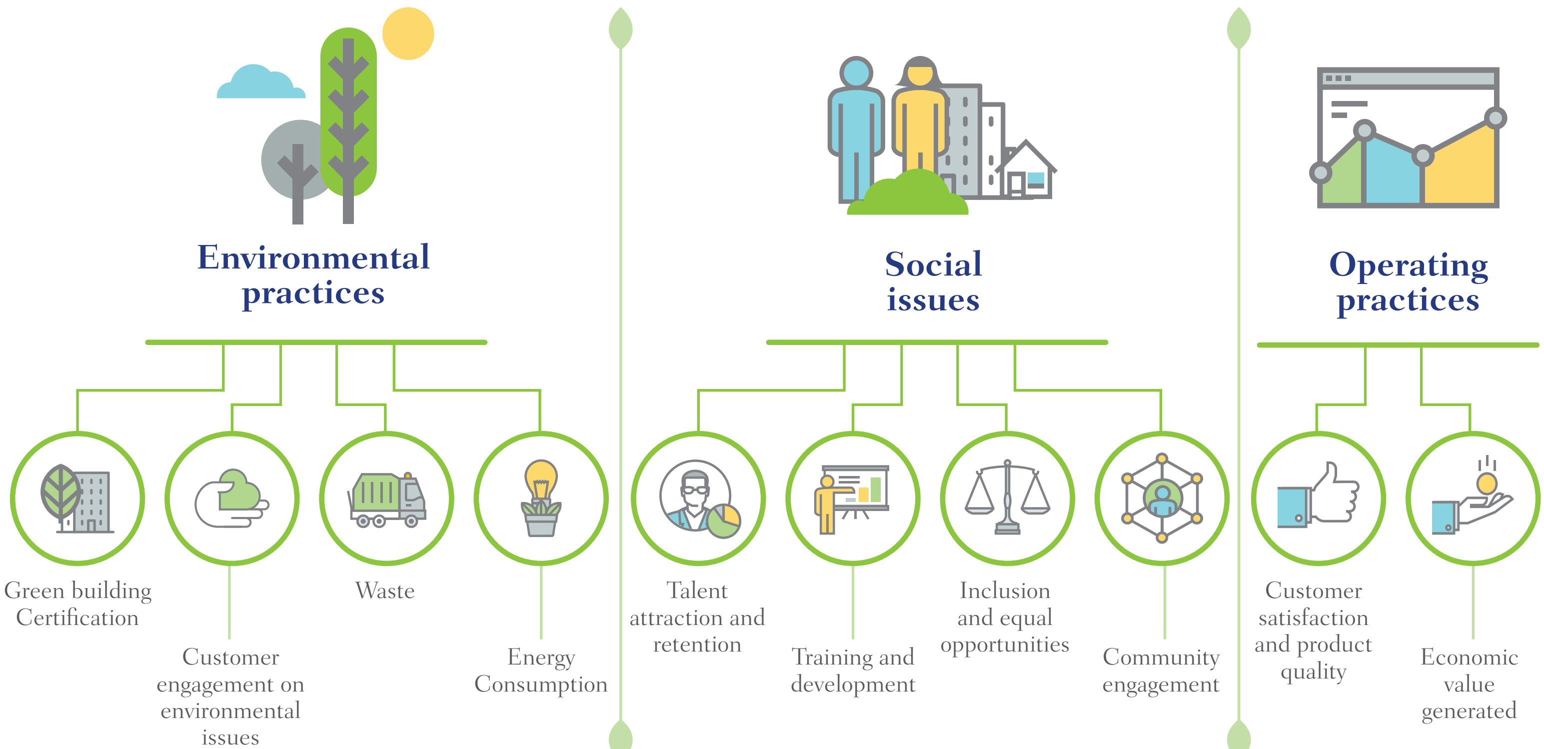
Governments & Regulators

- Issue-specific collaboration

MATERIAL ISSUES

We conducted a comprehensive materiality assessment in 2016 involving internal and external stakeholders through a series of focus groups, interviews and surveys. Details of the materiality assessment process and materiality matrix can be found in the Supporting Information section. Ten material issues were identified as being important to both stakeholders and to the business.

Material Issues



Meeting Customer Needs

As a premium brand, delivering high-quality customer service and products is our utmost priority. Through open communication with customers, management engagement and proper training of staff, we monitor the effectiveness of our management approach and allow opportunities to drive improvements. PCPD strongly believes that quality delivery can only be achieved when we understand the needs of our diverse customer base and continually to think ahead to anticipate their changing needs and upgrade our approach accordingly.

Owners of residential properties

Residential occupants

Commercial tenants

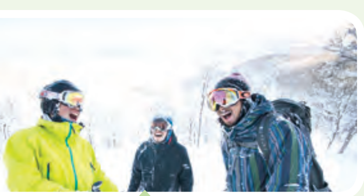
Resort guests

SERVICE EXCELLENCE

Communicating With Occupants And Resort Guests

Maintaining communication with occupants in our managed properties provides us with feedback and opportunities for continual improvement. We strive to build long-term relationship with our occupants and the community based on mutual trust and respect. To do so, we implement various channels to ensure effective communication can take place between management and occupants. At ISPML, our customer satisfaction survey is conducted annually and covers a wide range of topics from service quality to cleanliness. This survey is also a platform for our occupants and property owners to express their views and needs. Survey findings provide a clear direction for our management team in establishing our estate management enhancement plan.

We upgraded our Bel-Air App this year to improve user experience. The app is now equipped with push notification capability, a location map to search for directions, and a new navigation menu that is easier to use. The latest digital issues of Bel-Air Magazine are now accessible through our upgraded app.



Similar communication methods are used to serve our resort guests. Customer satisfaction surveys are conducted regularly to allow guests to voice their views. By setting guest complaint rates as one of our KPIs, we have derived a measurable method to track our customer service performance. This monitoring mechanism is also intended to emphasise the importance of providing quality customer service to our staff. Our customer survey results this year revealed that 89% of guests are likely to return to our resort sometime in the future.

In 2017, we continued to implement measures to solve the labour shortage issue, especially for housekeeping staff. In November 2017, construction of new accommodation for staff was completed. It will provide over 80 rooms to make our staff from other parts of the world feel at home for years to come.

Building Capacity Of Our Staff

The Group understands the importance of providing the right tools for our staff so they can deliver high quality service. Our Service Pledge was created to provide guidance for our ISPML management staff. It outlines our standards relating to services, utilities, club, customers, environment, security and safety. To better translate it into actions, we follow an Integrated Management System (IMS) complying with requirements of ISO 9001 and ISO 14001. Furthermore, we developed a Management Progress Plan as a guiding document to help our staff achieve the targets and objectives that are outlined in our Service Pledge and IMS Policy.

Our customer-facing staff attend regular in-house training sessions to improve customer centricity and polish their customer service skills to meet the needs of their daily operation, such as telephone manner and complaint handling. Basic language training on English and Mandarin equips staff with commonly used vocabulary to better serve non-Cantonese-speaking residents/ guests. Other essential training topics cover safety, operational procedures and environmental performance.

Across the Group's resort and ski operations, all newly joined employees receive comprehensive on-the-job training. With ski operations by definition being seasonal, we source large numbers of seasonal staff members each year. To ensure customer service and safety is maintained, we conduct comprehensive staff orientation and training at the start of each ski season. This year, we defined our expectations from our employees with our 'Core Competencies' framework. Expectations in regards to 1) contribution and productivity; 2) knowledge and thinking; 3) leadership, management, and role model; and 4) communication are clearly outlined.

All new staff are required to attend our mandatory legal training. This training is to ensure all staff are aware and understand the compliance issues related to our businesses, including our Group's policies. This year, we provided four hours of legal training to 89 employees in Hong Kong, Jakarta and Japan.

Management Engagement

Engaging our ISPML management team to partake in seeking customer feedback plays an important role in monitoring the quality of the service provided. Under our Total Quality Management system, our management team is involved in property inspections, referred to as 'walk management' internally. For issues identified, resolutions need to be executed quickly and comprehensive glitch reports need to be prepared. We also conduct our mystery shopper exercise on a regular basis. Incidents and findings are discussed with company management and members of our Owners' Committee.

Senior managers of our ski operation work closely with our customers and pay personal visits to inspect all aspects of the business regularly. Across our Group, we collect customer feedback data via formal collection systems such as, forms and customer requests. Detailed feedback is also obtained proactively by directly engaging customers, observations, and asking further questions. Managers review feedbacks received regularly to ensure that excellent customer service is maintained and improvements are made where necessary.

Protecting Customers' Privacy

Our 'Six Data Protection Principle', which is developed based on the requirements set out in the Hong Kong Personal Data (Privacy) Ordinance, outlines the requirements for handling sensitive customer information. Measures are put in place to protect customer information from unauthorised access, use, or disclosure. Unless authorisation from customer has been given, no personal customer data are retained and we do not use their contact information for marketing purposes.

PRODUCT QUALITY

To ensure the properties we develop are of high quality, we are diligent in considering end-users' needs early in the design phase and throughout the development process until the end-product is delivered. Sustainable materials and advance equipment are used during the construction phase. We prioritise employing professional contractors and suppliers. A safe and healthy working environment is provided so that our staff and contractors have the capacity to deliver quality work.

Supply Chain Management

Our group-wide Managing Environmental and Social Risk of Supply Chain Policy expresses the need to integrate considerations for environmental and social aspects during the process of identifying suitable suppliers. Under this policy, it is mandatory for our suppliers to act responsibly and adhere to our environmental, social and governance standards. Suppliers with a track record of implementing good environmental and social practices and/or hold environmental certification are given preference in the selection process. Our expectations of our suppliers are communicated clearly through workshops.

Starting in 2017, we began incorporating our policies on social and environmental requirements into our tender documents and contracts to ensure our contractors, subcontractors and business partners are aware of our expectations for compliance under these policies.

Customer Health And Safety

We hold ourselves accountable in maintaining a healthy and safe environment for our occupants, tenants and guests. For properties under management, indoor air quality is an area of concern. Stringent indoor air quality requirements are implemented at PCP, Jakarta as part of the LEED Platinum standards. For ISPML, smoking is prohibited in all common areas at all times, during maintenance and repair work we are cautious in avoiding the use of materials containing volatile organic compounds (VOCs) and formaldehyde.

Safety remains our top priority at our ski operations in Japan. Similar to previous years, we continued to implement programmes to promote mountain and winter sports safety best practices. Guests are informed of our skier responsibility code and the 'Niseko Local Rules' from printed brochures and maps which outline appropriate on-slope behaviours. Daily announcements are made across the public announcement system to advise customers to abide by Niseko Local Rules. Avalanche reports and trail guides are made available at our common areas, including ski lift stations and online website.

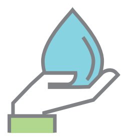
Our NHR staff joined the "Shiribeshi Area Guidance on Assisting Foreign Tourists during a Natural Disaster" forum this year. This government-led event provided insights on procedures for helping tourists in the event of a natural disaster such as typhoons and earthquakes. Other participating parties involve local businesses in the hospitality industry. We will continue to actively participate in these workshops in the future as part of our commitment to customer health and safety.

Preserving The Environment

To avoid unnecessary damage to our natural environment, our Group integrates all environmental considerations into decision-making process to strike a balance between the natural and built environments. We acknowledge the need for a multi-stakeholder approach to effectively manage and reduce the environmental impacts our businesses pose. By engaging with stakeholders along our value chain, we minimise our environmental impacts throughout various stages of our operations.

In addition to improving our environmental performance to be in line with local regulations and industry-specific guidelines, we hold ourselves responsible for identifying potential environmental impacts arising our business as well as opportunities for improvement.

Minimising carbon emissions

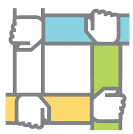


Improving energy and water efficiency

Improving waste diversion from landfills

Minimising the impact of our business on the natural environment

Adopting sustainable design for new developments



Influencing the behaviour of our partners and stakeholders

Adopting green procurement principles

ENERGY AND GREENHOUSE GAS EMISSIONS

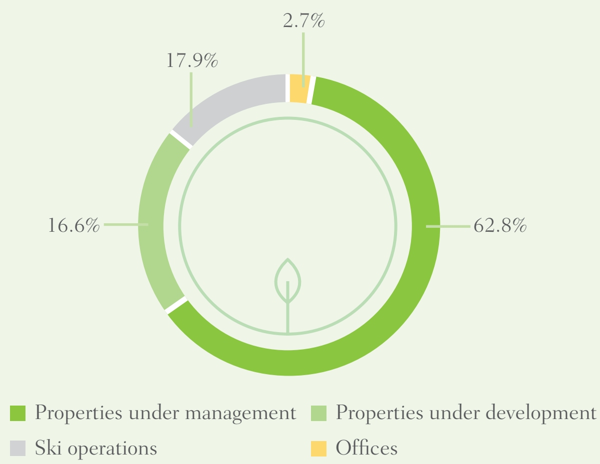
Improving building energy efficiency remains an area of opportunity to improve performance. Our approach includes optimising the use of lighting, heating and cooling systems, as well as the use of energy efficient equipment. Given that our business operates in different geographical locations with various climates, energy consumption management approaches need to be catered to each location. For example, our ski operations in Japan concentrate their efforts in retaining heat and energy efficient heating mechanisms. Conversely, Jakarta and Hong Kong will focus on building cooling mechanisms. In Pacific Century Place, Jakarta, high performance chiller plant with optimization system, enhanced refrigerant management and cooling tower water management are adopted. With these diverse requirements, energy efficiency performance is better managed at a regional level, where staff are responsible for exploring energy consumption reduction methods. Staff from each region are encouraged to identify other areas of opportunity to reduce energy consumption through implementation of new technology when appropriate. With our comprehensive approach, we work closely with our suppliers, consultants and contractors to enhance the energy efficiency performance of our buildings.

Energy Performance

To reduce our energy consumption group-wide, we have put in place our Energy and Water Management Policy. Under this policy, employees are responsible for identifying the appropriate measures to reduce energy use. It also provides specific requirements outlining employee's responsibilities to shut down machines and/or equipment when they are not in use.

Our properties under management are the largest source of energy consumption followed by properties under development, ski operations and offices in different regions.

Overall Energy Use by Division



Note: Percentages are rounded up to the nearest percent

With the construction of PCP, Jakarta completed this year, we aim to maintain its energy consumption to be 22% lower than the annual average of other commercial buildings in the city during its operation stage. This will be achieved by a multi-pronged approach by using smart lighting with motion-sensor, daylight sensors, and energy-efficient air conditioning systems. We are participating in carbon-trading schemes to minimise our carbon footprint. Approximately 35% of total estimated energy used for the core and shell area of the building will be offset by the renewable energy procured from carbon offsets for the first two operating years.

To keep temperature at a comfortable level, we have installed automatic doors and other climate control facilities at our ski resort. This not only allows us to be more energy-efficient, it also provides a consistent and comfortable environment for our resort guests.

We have started replacing our ski groomers at our ski operations with newer, more energy-efficient models that comply with new emission standards. The new models offer a 90% reduction in nitrogen oxide and particulate emissions. In addition, all snowmobiles have been upgraded to new models with improved exhaust emissions. We will continue upgrading our fleet in the upcoming year.

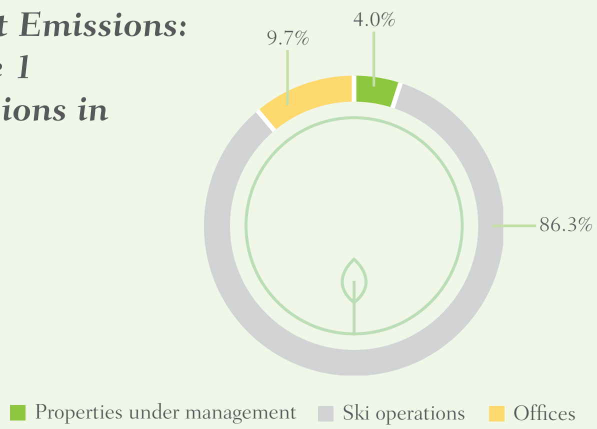
At our offices in Hong Kong and Japan, we have installed energy-efficient lighting and cooling systems. Reminders are posted around the office to remind staff to turn off office equipment and lighting when not in use. We have also established a standard temperature range for our centralised air conditioning system in our Hong Kong to be between 23 and 24 degrees Celsius.

Greenhouse Gas Emissions

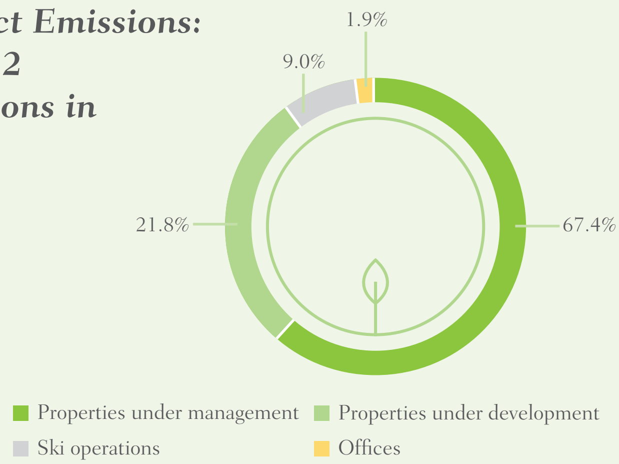
Our group-wide Emission Policy offers guidance to all our employees and suppliers by outlining emission reduction measures applicable to our daily operations. This policy covers measures in managing ozone depleting gases and greenhouse gases by considering practical methods to minimise emissions through conservation and substitution. Reference to relevant laws in Hong Kong are made within the policy. For overseas operations, we adhere to the requirements of local law and regulations.

The total direct carbon dioxide emission in 2017 is estimated to be 26,633.4 tonnes of carbon dioxide equivalent. No scope 1 emission was recorded from properties under development as diesel generators are no longer being used. Instead, power supply was purchased from electricity providers.

Direct Emissions: Scope 1 Emissions in 2017



Indirect Emissions: Scope 2 Emissions in 2017



WASTE MANAGEMENT

PCPD implements a 3-way approach to minimise the waste generated through reducing, reusing and recycling all materials as far as practicable. We are committed to using raw materials in the most efficient and responsible manner. Our waste management approach complies with relevant laws and legislations of each geographical operating region. Waste generated by our operations in Japan follows stringent waste handling requirements of the Japanese Government. To ensure compliance, our General Waste Management Plan and Municipal General Waste Management Plan outline how wastes of various types are collected and disposed of. In 2017, 12,431.0 tonnes of wastes were generated and sent to landfills, 2,419.9 tonnes of wastes were recycled.

WASTE MANAGEMENT

Due to stringent government regulations in Japan prohibiting businesses from disposing waste directly to landfills, we separate recyclables, non-recyclables, combustible and compostable waste diligently.

Recycling facilities for paper and toner cartridges are available at our Hong Kong office. For obsolete IT equipment, our suppliers will collect and dispose of such waste in compliance with relevant guidelines and regulations enforced by the Environmental Protection Department.

FOOD WASTE REDUCTION THROUGH ENGAGEMENT

In 2017, we proactively explored opportunities to improve our performance in waste management by first, tackling the amount of food waste generated by our ISPML occupants.

The Bel-Air Food Waste Recycling Fund is funded by the Environmental Protection Department's Environment and Conservation Fund has been granted with over one million Hong Kong dollars to ISPML to implement a food waste reduction programme. The funds will be put towards educational workshops to engage residents' awareness as well as to provide supporting on-site facilities for composting to reduce the amount of food waste that would otherwise end up in landfills. A portion of the fertiliser generated from compost will be given back to our occupants through a series of educational events.

The implementation of this programme begins in 2018. ISPML will be inviting an external NGO to help carry out these initiatives. The fund will be used over the span of two years, engaging about 200 households.

PCPD actively participates in the recycling initiatives led by the Environmental Protection Department

CONSERVING WATER

Managing our water use starts at the planning and design stage. Through implementing sustainable building designs, especially in our new developments, we integrate water-efficiency technology to reduce our water footprint. To positively influence our occupants, we advocate good behaviour by engaging and educating them whilst monitoring our overall water use to track performance. Our group-wide Environment and Natural Resources Policy and Energy and Water Management Policy outline the guidelines to water efficiency for all business units.

Properties under development and properties under management by ISPML have set a focus on water conservation. In 2017, 37,188.7m^3 was used by our properties under development and 49,769.1m^3 by properties under management. For new developments, we adopt water-efficient designs such as high-efficiency taps. At Pacific Century Place, Jakarta, grey-water is harvested from shower and washbasins to be used in flushing systems. Storm water is also collected and used for on-site irrigation to maximise the use of water resource.

Although we have limited control on our occupants' water use at properties under management, in common areas such as the clubhouse, we use water-saving taps and water closets. We educate them through our newsletter so they become mindful of their water use. We offer suggestions on ways to conserve water, as well as fun challenges to encourage shorter shower time.

GREEN BUILDING CERTIFICATION

As a property developer and property management company, designing and operating our buildings to industry-level standards are the key to maintaining competitiveness. With green building certifications becoming increasingly common, especially in Hong Kong, we recognise the need to stretch our limits beyond the industry norm. These certifications essentially serve as proof to our tenants and occupants that we are committed to providing a high-quality environment in which they work and live. We believe that the green building certification process is an effectiveness approach to ensure high environmental and sustainability performance throughout its entire life-cycle.

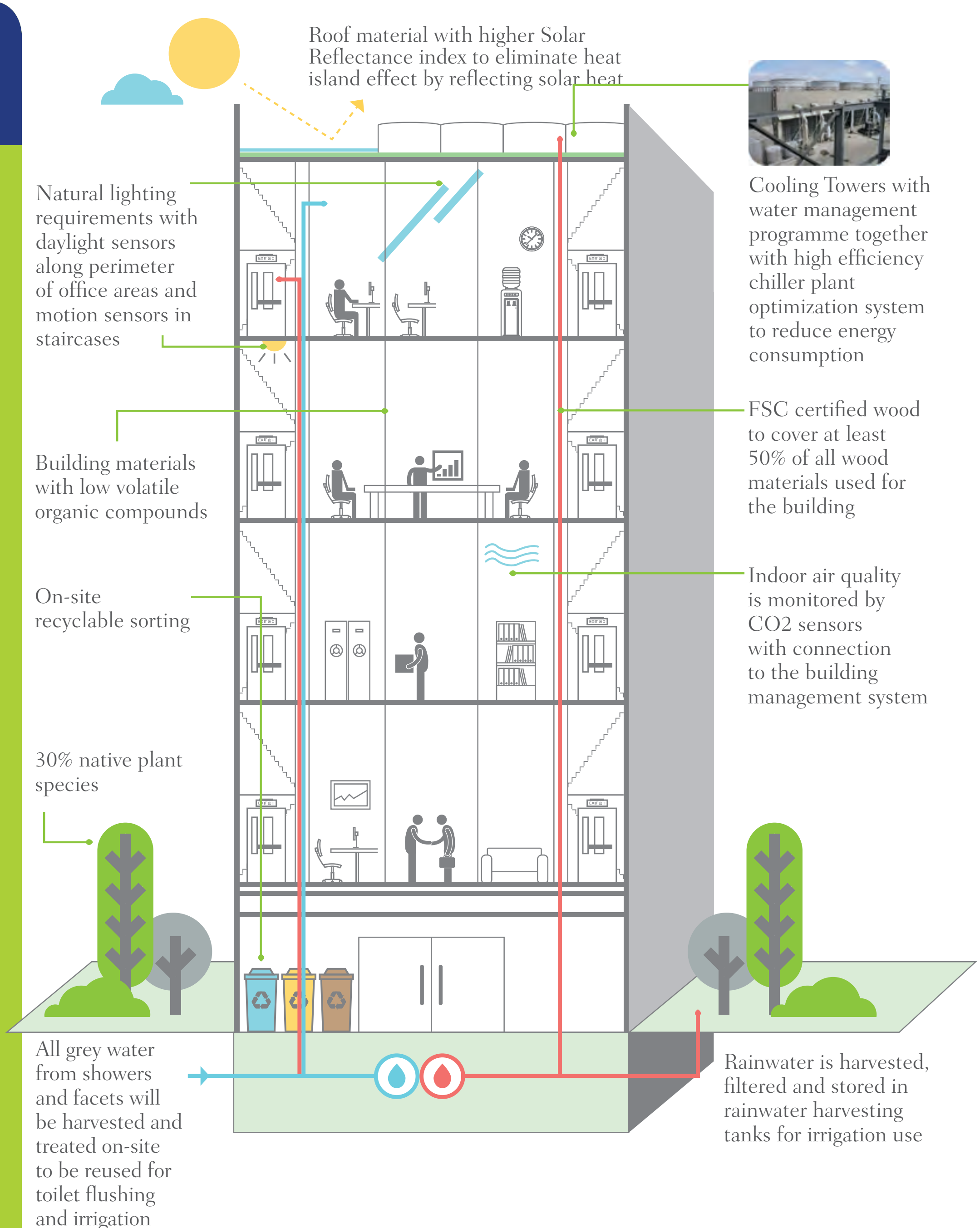
Our journey through the design and development process of our LEED Platinum Pacific Century Place, Jakarta project has demonstrated the benefits and opportunities of green building certifications. To meet the certification requirements, we are responsible for stringent environmental performance throughout the entire life-cycle of the building, starting from the design stage. Consideration for energy and water efficiency, quality of sustainable materials used, wastewater management, and indoor air quality are required. Other sustainability considerations include provision of green space and connectivity to the greater surrounding areas through sustainable modes of transportation such as bicycling and public transportation. By fulfilling these requirements, not only do we anticipate our environmental performance to significantly improve, we believe the well-being of our tenants and occupants would be enhanced as well. In the upcoming years, we will continue to explore new opportunities for green building certifications for our new developments. At the same time, we will be closely monitoring the environmental performance of Pacific Century Place, Jakarta as it begins its operation stage.

Our Group is currently involved in a number of green building certification programmes worldwide.

Implementing LEED Platinum Standards at PCP, Jakarta

Our major milestone in 2017 marks the completion of our PCP, Jakarta. This award-winning premium grade A office building not only is the first LEED Platinum pre-certified commercial building in Jakarta, it is also our first building with state-of-the-art environmentally friendly design. Throughout this process, our property development team gain vast experience and knowledge on implementing the latest environmentally friendly technologies and explored innovative ideas to meet LEED Platinum standards. PCP, Jakarta not only demonstrates our commitment to protecting the environment, it is also our flagship project which fulfils all environmental objectives outlined in our Sustainability Policy. Its design incorporates special measures to address water efficiency, lighting, waste treatment, air quality and biodiversity.

As of Q4 of 2017, we began accepting tenants' requests on fit-out work. Under the LEED Platinum certification, tenants' participation in environmentally friendly practices are required. We developed the "Tenant Fit-out Guidelines" to help tenants understand how they can reinforce these environmentally features in their own space and take advantage of the high-performance features. Specific requirements for lighting, indoor air quality and materials used are outlined. To maximise PCP, Jakarta's performance, we strictly require all tenants to follow our requirements.



ENGAGING OCCUPANTS

Our Group believes we have the responsibility to address the environmental performance throughout our value chain. Although we cannot control the environmental performance of our occupants, we view our relationships with them as an opportunity to educate and engage them to encourage environmentally friendly lifestyles. Newsletters and bulletin boards are used to provide facts and tips on how to be more environmentally friendly. We cover topics including energy reduction, waste reduction, water conservation and biodiversity protection.

Our quarterly Bel-Air Greenlife Newsletters offer occupants innovative ideas on how to reduce their environmental impacts in their daily lives. We also take this opportunity to educate them on the latest environmental issues. We cover a wide-range of topics, including tips on reducing food waste, water footprint of our foods, as well as encouragement to stop using plastic straws.

Our newsletters are published digitally and all issues are accessible to occupants on Bel-Air website www.bel-air-hk.com and Bel-Air App.

CARING FOR OUR PEOPLE

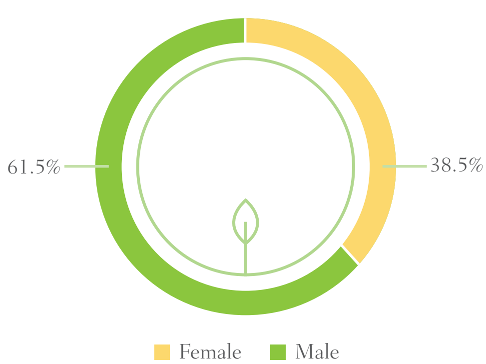
We recognise our employees as our greatest asset and a key component to operating a competitive business. With over 700 employees group-wide, we are committed to providing a rewarding and collaborative working environment. We create a fair and safe working environment by promoting diversity, inclusion and equal opportunities. We ensure all our activities respect, promote and advance internationally recognised human rights standards. We offer professional training opportunities to foster growth and development.

We uphold equal opportunities principles and offer competitive remuneration. Our employees enjoy the benefits of a progressive career path, work-life balance and performance-related rewards. Our recruitment process is based on a pre-approved annual operating plan that anticipates the needs and expected growth of each department. We have systems in place that allow for the adjustment of our human resources policies to accommodate changing personnel requirements in the various jurisdictions in which we operate.

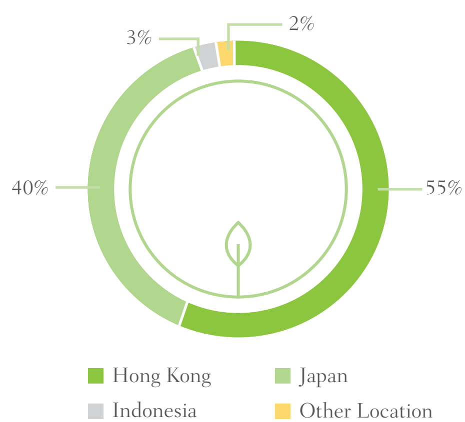
Workforce made up of 24 nationalities

3,114 Total number of training hours provided

Ratio of Staff by Gender



Ratio of Staff by Location



TRAINING AND DEVELOPMENT

Maintaining knowledgeable and well-trained staff is valuable to our business and is an integral component for providing premium service and products. Each staff is provided with training opportunities to facilitate their professional growth. Such trainings include, but not limited to, PCPD's operations, polices and corporate culture, and training designed to enhance technical and soft skills.

Health And Safety

The health and safety of our staff is important to us and we are committed to providing a safe working environment so that staff can focus on delivering quality customer service and products. Our Group believes both manager and staff play an equally important role in injury prevention and hazard identification. Our Occupational Safety and Health Policy outlines the process and guidelines mandated group-wide. These are also extended to our contractors, suppliers, and customers.

Given the difference in nature of our businesses in different regions, each business unit is responsible for formulating their own safety plan. To ensure occupational health and safety consciousness is integrated throughout all levels of operation, not only do we provide regular training, we also assign specific safety roles and responsibilities so that these staff are clear on the procedures for recording and following up on any safety-related incidents.

For ISPML, we provide health and safety training sessions on topics including but not limited to working in hot weather, avoiding communicable diseases, food safety etc. A total of 12 training sessions were provided in 2017.

During the reporting year, ISPML was fined HK$10,000 in relation to an accident where an employee got injured at work. To prevent similar accidents in the future, our safety consultant will provide relevant safety awareness training to employees.

Professional Development

This year, we offered training courses to increase our employees' skill set in their daily work. We offered an English Communication Skills course for ISPML staff. Additionally, a Supervisory Development Programme and Managerial Development Programme were made available to PCPD staff through our parent company, PCCW's Group HR, Learning and Talent Development programme.

Supporting External Training

This year we continue to support employees to acquire skills and academic qualifications to support their career development that is in line with their professional goals and our business needs. In addition to providing subsidies and reimbursements for external courses, we offer up to six days of paid examination leave each year for eligible staff.

RECRUITING TALENT

Employee Referral Programme

We continue to offer our employee referral programme for recruiting frontline operation staff. The programme provides incentives for our staff to identify high-potential new talent with a bonus when their referred candidate is hired. In 2017, we received 15 referrals and successfully recruited four new staff members through this programme.

Tackling Labour Shortage in Japan

In collaboration with the Hokkaido Government Shiribeshi General Sub-prefectural Bureau to promote interest in the hospitality industry, students from places outside of Nieseko are invited to the ski resort during the summer to learn about the hospitality industry through an internship. This also serves as an opportunity for students to brush up on their English skills. This year, we were delighted to have shared our knowledge in the hospitality industry with two college students who completed the internship programme.

EQUAL OPPORTUNITIES

As an equal opportunity employer, PCPD fosters diversity and inclusion throughout the organisation. Discrimination on the grounds of gender, age, marital status, family status, pregnancy, disability, race, ethnic origin, and religion is prohibited. We are committed to providing a harassment-free workplace where all employees are treated with respect. Our Human Resources Manual outlines the complaint notification and handling system to deal with suspected cases of harassment or discrimination. Employees are encouraged to raise and discuss matters of concerns relating to their employment to their supervisors. In situations where the outcome of the discussion is less than satisfactory, employees can request for further discussion with higher levels of management. If necessary, employees are allowed to request a human resources representative to be present as a third party witness.

Our terms and conditions of employment, operational rules and workplace conditions are reviewed regularly to ensure we uphold anti-discrimination and anti-harassment standards. These standards are extended to our contractors and subcontractors.

PROMOTING HEALTHY LIFESTYLES

We have incorporated a fitness centre in our Pacific Century Place, Jakarta, offering of 2,700 square metres to all tenants and our staff members to use. The fitness centre provide various gym equipments, an outdoor swimming pool, jacuzzi and sauna. This fitness centre will be completed and available to staff in the early half of 2018.

This year we offered a series of wellness talks including the BUPA Health Lounge, a free medical check-up for employees age 40 and up, as well as free flu vaccination for employees in addition to discounted vaccination for family members.

GREEN MONDAY

This year we continued the collaboration with a local social enterprise through a series of activities to promote green and sustainability lifestyles. Staff from ISPML and Cyberport head office gathered to learn how to make raw chocolate and chia-seed pudding while a professional dietitian shared tips on healthy dieting. A pop-up market featuring healthy snacks and drinks was also set up at our head office where staff were invited for tasting and shopping. We also put forward a Shopping Bag Relay programme in which staff are encouraged to donate and/or reuse shopping bags placed in the pantry.

LABOUR STANDARDS

We have a zero-tolerance policy for any behaviour that is in breach of the law or our corporate policies. We operate in compliance with all relevant laws and regulations, including prohibiting the use of child or forced labour and minimum wage requirements. To address suspected incidents of unfair conduct, such as the use of child or forced labour, our staff adhere to our Unethical Conduct Notification Procedures Manual, which requires timely escalation of the incident to higher authority.

With businesses throughout different regions of the world, we are cautious in ensuring we meet or even exceed all local laws and regulations on labour and human rights. This includes performing due diligence to identify, prevent, mitigate and account for potential risk of human rights breaches. The Group pays due care and attention to new and emerging regulations and best practices worldwide when formulating our own policies and procedures.

ANTI-CORRUPTION

Our Bribery, Gifts and Entertainment Policy outlines our requirements and practices in regard to prevention, identification and handling of alleged or proven bribery or corruption. At the start of their employment, all employees are informed of PCPD's anti-corruption measures. ICAC trainings are provided periodically to update employees on the latest anti-corruption issues and developments.

To report suspected dishonest, unethical and illegal behaviour, our whistle-blowing policy and procedures are available on our intranet and public website. Reports are confidential and anonymous and extended to the Audit Committee for investigation.

No legal cases regarding unethical or corrupt practices were brought against the Group or its employees in 2017.

Supporting Local Communities

Building and maintaining long-term relationships with our local communities and stakeholders is vital to our business. Fostering a close-knit relationship with the local communities in which we operate in allows our business and members of the community to grow. We respect local cultural values, historical backgrounds and geographic landscapes in which we work and continue to seek harmony with the local communities in which we influence.

Our primarily focus for investing in the community cover arts and culture, education and environment programmes, innovation and entrepreneurship, and volunteer opportunities that benefit people who live, work in and visit the communities. This is done through sponsorships, and engagement with the community.

In 2017, PCPD took action to step up our involvement with the local community to bring positive impacts to the communities which we operate in. We established a new working group within our organisation to promote and encourage employees to be proactive in participating in community services. In the coming years, we hope to leverage the effectiveness of this working group to increase our capacity in giving back to the community.

CARING FOR THE ELDERLY

To celebrate Mid-autumn Festival, a total of nine staff members along with their family members visited some elderly homes to share festive gifts with the elderly.

ENGAGING WITH JAPANESE LOCAL COMMUNITIES

In support of the Kutchan Tourist Association, we actively participated in three clean-up events in the months of May, June and August this year. Aside from clean-ups along roadside and common areas near the resort, our staff also helped with minor landscaping works involving trimming weeds and flowerbeds. Through these volunteering events, our staff got a chance to meet other volunteers from local companies and business owners.

In July 2017, a ground-breaking ceremony for the Park Hyatt Niseko Hanazono took place where prayers for construction safety were made by our senior management. Local communities of Kutchan and members of the Kutchan Tourist Association attended in support of the commencement of the construction works.

DEVELOPING THE NEXT GENERATION

Our Japan operation supports the language development of local youth by providing donations to the Young Learners Course Scholarship. Our donations provide resources to a local language school to enrol students in English courses to help students obtain Cambridge English Language Assessment qualifications.

With our support to this programme, the English skills of the local community are anticipated to improve for the years to come. By equipping the local community to be a part of the local tourism industry, we hope to include local residents as part of our operations in the long-term future. In 2017, this programme supported 58 students, of which, our Group provided donations to support five students within the programme.

Nagito, a young boy from Kutchan, is one of the students who benefited from this programme, and also demonstrated an accelerated speed of improvement in his English skills. His mother recognised the importance of English to Nagito's future success and supported his participation in the programme. As a third-year junior high student and having been enrolled in the programme for three years, Nagito's English skills are well beyond his peers and are three years ahead of the average student. Nagito passed the A2 level exam with merit during this third year of junior high. To put this into context, A2 level is a target by the Ministry of Education in Japan for students graduating from high school. At this rate, Nagito's English proficiency level should achieve a B2 level, meaning his English skills are sufficient enough for him at the working level. As a winner of the Winter's Rotary Club Competition for Information Guides at Kutchan Station, Nagito will be sent abroad to a language school in Sydney for a month where he will be fully immersed in an English-speaking country. This programme has provided the resources needed for students in the Kutchan area, like Nagito, to improve their English language skills.

BUSINESS-SCHOOLS PARTNERSHIP PROGRAMME 2016/17

As one of the participating companies in the Business-Schools Partnership Programme led by the Hong Kong General Chamber of Commerce, we held a series of workshops and site visits for students from Heep Yunn School to learn about our property management operations in Hong Kong. Our representatives engaged with students by sharing what career prospects are like at PCPD after an introduction to our business operations as part of the career talk. Students were invited to a guided-tour at Residence Bel-Air where they experienced premium customer services provided at the premises. This programme provides an excellent platform for direct communication between students/teachers and companies/business executives.

Summer Internship Programme at ISPML

Four students from Hong Kong Community College joined us at ISPML this summer as part of our internship programme. Students spent their summer holiday as interns at Residence Bel-Air where they gained first-hand experience working in the property management sector and practising their communication and customer service skills. This year's internship programme positively influenced the students and our interns provided positive feedback on the programme.

I am grateful for all the new skills I acuired during 3 months of internship. This opportunity allowed me to improve my communication skills and familiarise myself with the company's operating system. I am really thankful for my colleagues, supervisor and customers who taught me these skills. I believe this internship will be helpful for my future career

Lin Feng Yi

During these unforgettable months, I learned the operation of a club house and improved my communication skills. My colleagues were patient with me when I needed help to solve problems. Ibelieve these 3 months of experience will be useful to my future studies and career

Chan Sin Yi

I am thankful for my colleagues and supervisor for believing in my ability to succeed and providing me direction in my future career. During these 3 delightful months, I improved my computer and customers service skills.

Fu Kin Man

These 2 months have been a valuable experience. My colleagues and supervisor were very nice and taught my many new skills. I was able to practise my customer service skills, which will help me excel in my studies and future career. Since the internship programme, I have become more confident and assertive. I enjoyed my internship very much

Hon Chi Kin

SUPPORTING INFORMATION

MATERIALITY PROCESS

In 2016, we undertook our first comprehensive materiality assessment exercise. This involved conducting focus groups, interviews and a survey of internal and external stakeholders to identify 'material issues' – defined as those issues that reflect the most significant economic, environmental and social impacts of our business and the issues that matter most to our stakeholders.

Figure 2: Materiality Process

Step 1

Identify

- Analyse the sustainability context
- Identify issues that are relevant to the company, industry and business location

Step 2

Prioritise

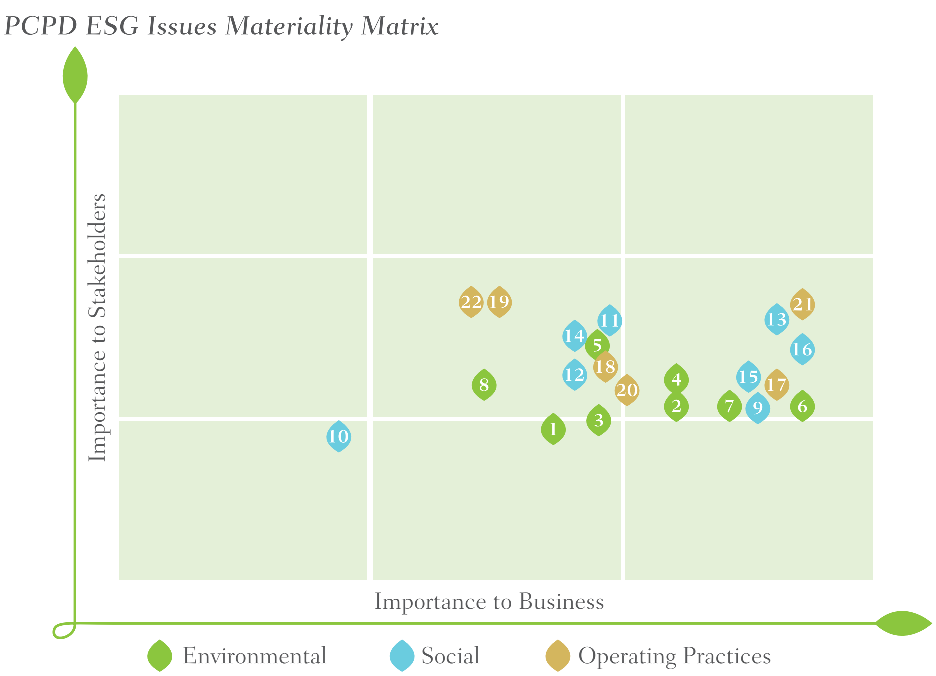
- Engage stakeholders through focus groups, interviews and online surveys
- Determine the company's most significant impacts and set the boundaries for reporting on these issues

Step 3

Validate

- Management workshop to discuss and validate material issues

Figure 3: List of Material Issues



#	Issues	Category
1	Greenhouse gas emissions	Environmental practices
2	Energy consumption	Environmental practices
3	Water consumption	Environmental practices
4	Waste	Environmental practices
5	Environmental impact of construction	Environmental practices
6	Green buildings certification	Environmental practices
7	Customer engagement in environmental issues	Environmental practices
8	Use of chemicals	Environmental practices
9	Local community engagement	Social
10	Community investment	Social
11	Occupational health and safety	Social
12	Labour standards in supply chain	Social
13	Training and development	Social
14	Employee welfare	Social
15	Inclusion and equal opportunities	Social
16	Talent attraction and retention	Social
17	Economic value generated	Operating practices
18	Corporate governance	Operating practices
19	Anti-corruption	Operating practices
20	Supply chain management	Operating practices
21	Customer satisfaction	Operating practices
22	Customer privacy	Operating practices

SUSTAINABILITY POLICY

Scope

The purpose of this policy is to set clear commitments by Pacific Century Premium Developments Limited ("PCPD" or the 'Company') to foster a culture of sustainability within the Company, incorporate sustainability into our business strategy and carry out actions aligned with sustainable development.

This Sustainability Policy applies to the Company and all its subsidiaries, affiliates and associated companies, in Hong Kong and other parts of the world (the 'Group').

The commitments outlined in this policy define the Group's framework for sustainability, and provide a reference for establishing corporate goals on sustainability in specific material areas. An implementation plan supports this policy outlining specific actions, targets, timeframes and indicators for tracking our performance.

Vision

Our sustainability vision is to conduct our business in a responsible manner that protects the environment, benefits the communities that we operate in, creates value for our customers, partners and employees while enhancing the long-term success of our business.

Our Commitments

- Protect the natural environment and respect the local culture of the communities where we develop and manage property, recreational and infrastructure projects;
- Minimise the extent of any adverse environmental or social impact our operations may have;
- Create an enabling environment that helps our employees take responsibility for delivering on our sustainability commitments;
- Engage our employees, customers, suppliers, contractors, shareholders and other stakeholders in an effort to work together to continually improve our environmental, economic and social performance; and
- Actively collaborate with governments and local forums to advance sustainable and responsible business practices in our industry.

Our commitments on specific topics:

OUR PARTNERS

Customers

- Provide the highest quality property development, management and recreation-related services and products, while considering the environmental and social benefits and impacts of our properties throughout their entire life cycle;
- Communicate with our customers about our green building standards and environmental considerations; and
- Advise our customers on sustainable actions they can take when using our services and properties.

Community

- Engage the local community to ensure sustainable development with mutual benefits;
- Create a harmonious, dynamic and liveable environment for the communities in which we operate by developing and managing properties that take into account local culture, environment and community priorities;
- Maintain a strong level of community involvement and provide support to community activities; and
- Encourage our employees to participate in community services.

Suppliers and Contractors

- Take into account environmental and social considerations in our procurement decisions; and
- Share our sustainability policy with our suppliers and contractors, support them in adopting sustainability initiatives aligned with this policy and seek constructive feedback from them to help us improve our sustainability performance.

OUR ENVIRONMENT

- Strive to achieve green building certification for all our new developments;
- Identify significant environmental impacts associated with our activities, adopt measures to manage and minimise the environmental impacts during design, construction and operation of all our properties;
- Reduce energy consumption and enhance energy efficiency in our properties;
- Minimise waste generated by our operations, and ensure that waste is reused or recycled as much as possible, with the disposal of any remaining waste occurring in a responsible manner;
- Ensure that we operate in a way that exceeds legal requirements, and integrate industry environmental best practices; and
- Monitor and measure our progress and set targets to continually improve our environmental performance.

OUR PEOPLE

- Provide a fair and supportive workplace, offer good working conditions for all our employees and strive to be employer of a choice;
- Ensure all our activities respect, promote and advance internationally recognised human rights;
- Ensure work done on our behalf is performed in a healthy and safe working environment; and
- Ensure that all our employees have access to development and training opportunities.

CORPORATE GOVERNANCE

- Uphold high standards of corporate governance and ethics, transparency and integrity in all aspects of our business;
- Promote ethical behaviour throughout our sphere of influence;
- Integrate social responsibilities within core management systems and decision-making processes; and
- Prevent any form of corruption in our business, including extortion and bribery.

AWARDS AND RECOGNITIONS

Charter / scheme	*Award*	*Entity/ property*	*Awarding organisation*	*Year of award*	*Jurisdiction*	*Voluntary/ mandatory*
Hong Kong Green Mark Certification Scheme	Green Mark Logo	ISPML	Hong Kong Q-Mark Council	2017	Hong Kong	Voluntary
Hong Kong Sustainability Award 2016/2017	Certificate of Excellence	ISPML	The Hong Kong Management Association	2016/2017	Hong Kong	Voluntary
Caring Company Scheme	10 Years Plus Caring Company Logo	ISPML	Hong Kong Council of Social Services	2017	Hong Kong	Voluntary
Family-friendly Employers Award Scheme	Family-friendly Employer	ISPML	The Family Council	2015/2016	Hong Kong	Voluntary
	Award for Breastfeeding support					
Quality Property & Facility Management Award (QPFMA)	Excellence Award – large scale Residential Property Management	ISPML / Bel-Air Phase 1 to Phase 6	The Hong Kong Association of Property Management Companies (HKAPMC) and The Hong Kong Institute of Surveyors (HKIS)	2016	Hong Kong	Voluntary
Quality Property & Facility Management Award (QPFMA)	Merit Award – small scale Residential Property Management	ISPML / ONE Pacific Heights	HKAPMC and HKIS	2016	Hong Kong	Voluntary
International Standard Certification	ISO 10002:2014 (Customer Complaint Handling System)	ISPML	Hong Kong Quality Assurance Agency	2017	Hong Kong	Voluntary
"Quality Management. Caring Buildings" Property Management Competition	Merit Award – small scale Residential Properties	ISPML / ONE Pacific Heights	The Organizing Committee of the Building Management Week 2017 (Water Supplies Department, Buildings Department, EMSD, Fire Services Department, FEHD, Home Affairs Department, HKIH & HKAPMC)	2017	Hong Kong	Voluntary
Green Office Awards Labelling Scheme (GOALS)	Green Office Label	Cyberport Office	World Green Organisation	2017	Hong Kong	Voluntary

HKEX REPORTING GUIDE CONTENT INDEX

HKEX ESG Reporting Guide SUBJECT AREAS and ASPECTS HKEX 'Comply or Explain' Provisions		Location of Disclosure in Sustainability Report 2017	Notes
A. Environment			
Aspect A1: Emissions	**KPI**		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	-	PRESERVING THE ENVIRONMENT	-
The types of emissions and respective emissions data	1.1	Data tables	-
Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	1.2	PRESERVING THE ENVIRONMENT -Energy and Greenhouse Gas Emissions; Data tables	-
Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1.3	PRESERVING THE ENVIRONMENT -Waste Management; Data tables	-
Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1.4	PRESERVING THE ENVIRONMENT -Waste Management; Data tables	-
Description of measures to mitigate emissions and results achieved.	1.5	PRESERVING THE ENVIRONMENT	-
Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	1.6	PRESERVING THE ENVIRONMENT -Waste Management	In Pacific Century Place, Jakarta, waste is handled by a contractor. In Thailand, waste only originates from our office and the amount generated is too low to hire a contractor.
A2 - Use of Resources	**KPI**		
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials	-	PRESERVING THE ENVIRONMENT	-
Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	2.1	Data tables	-
Water consumption in total and intensity (e.g. per unit of production volume, per facility).	2.2	Data tables	-
Description of energy use efficiency initiatives and results achieved.	2.3	PRESERVING THE ENVIRONMENT -Energy and Greenhouse Gas Emissions	-

Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	2.4	PRESERVING THE ENVIRONMENT - Conserving Water	-
Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	2.5	-	This is not considered material to the Group
A3 - The Environment and Natural Resources	**KPI**		
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	-	PRESERVING THE ENVIRONMENT	-
Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.1	PRESERVING THE ENVIRONMENT	-

B1 - Employment	**KPI**		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	-	CARING FOR OUR PEOPLE	-
Total workforce by gender, employment type, age group and geographical region.	1.1	Data Tables	-
Employee turnover rate by gender, age group and geographical region.	1.2	Data Tables	-
B2 - Health and Safety	**KPI**		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	-	CARING FOR OUR PEOPLE	-
Number and rate of work-related fatalities.	2.1	Data Tables	-
Lost days due to work injury.	2.2	Data Tables	-
Description of occupational health and safety measures adopted, how they are implemented and monitored	2.3	CARING FOR OUR PEOPLE - Training and Development - Health and Safety	-
B3 - Development and Training	**KPI**		
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	-	CARING FOR OUR PEOPLE - Training and Development	-

The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	3.1	Data Tables	-
The average training hours completed per employee by gender and employee category	3.2	Data Tables	-
B4 - Labour Standards	**KPI**		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	-	CARING FOR OUR PEOPLE - Labour Standards	-
B5 - Supply Chain Management	**KPI**		
General Disclosure Policies on managing environmental and social risks of the supply chain.	-	OUR COMMITMENT TO SUSTAINABILITY - Managing Our Value Chain Sustainably; MEETING CUSTOMER NEEDS - Product Quality - Supply Chain Management	-
Number of suppliers by geographical region.	5.1	Data Tables	-
Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	5.2	MEETING CUSTOMER NEEDS - Product Quality - Supply Chain Management	-
B6 - Product Responsibility	**KPI**		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	-	MEETING CUSTOMER NEEDS	-
Number of products and service related complaints received and how they are dealt with.	6.2	MEETING CUSTOMER NEEDS - Service Excellence	-
Description of consumer data protection and privacy policies, how they are implemented and monitored	6.5	MEETING CUSTOMER NEEDS - Protecting Customers' Privacy	-
B7 - Anti-corruption	**KPI**		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	-	CARING FOR OUR PEOPLE - Anti-corruption	-
Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	7.1	CARING FOR OUR PEOPLE - Anti-corruption	-

Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	7.2	CARING FOR OUR PEOPLE - Anti-corruption	-
B8 - Community Investment	**KPI**		
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	-	SUPPORTING LOCAL COMMUNITIES	-
Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	8.1	SUPPORTING LOCAL COMMUNITIES	-
Resources contributed (e.g. money or time) to the focus area.	8.2	Data Tables	-

DATA TABLES

	Unit	Total	Properties under development	Properties under management	Ski operation[3]	Offices			
			PCP, Jakarta	ISPML	NHR/ NMS	HK	Tokyo	Thailand	Jakarta
Air emissions									
KPI A1.1 The types of emissions and respective emissions data									
Emissions from gaseous fuel consumption[1]									
Town gas[2]	GJ	7,928.2	-	7,270.8	565.6	-	91.8	-	-
NOx emission	kg	29.2	-	29.2	-	-	-	-	-
SOx emission	kg	0.1	-	0.1	-	-	-	-	-
Energy and carbon emissions									
KPI A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)									
KPI A2.1 Direct and/or indirect energy consumption by type e.g. electricity, gas or oil in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)									
Electricity purchased	kWh	31,974,570.8	6,280,700.0[3]	21,652,198.0	3,402,832.0	421,853.1	83,687.1	55,096.0	78,204.6
Town gas	m^3	403,370.7	-	388,698.0	12,623.3	-	2,049.4	-	-
Indirect energy use[4]	**GJ**	**123,036.6**	**22,610.5**	**85,218.7**	**12,815.7**	**1,518.7**	**393.1**	**198.3**	**281.5**
Indirect CO2e emissions (Scope 2)[5]	**tCO2e**	**25,720.2**	**5,596.1**	**17,338.1**	**2,304.6**	**333.3**	**46.4**	**32.0**	**69.7**
Diesel	litres	60,457.5	-[6]	14,058.7	42,887.3	1,804.3	-	1,707.2	-
Petrol	litres	70,442.8	-	-	36,534.6	31,080.5	-	501.3	2,326.4
Kerosene	litres	184,523.8	-	-	184,523.8	-	-	-	-
Fuel oil	litres	49,118.0	-	-	49,118.0	-	-	-	-
Direct energy use[7]	**GJ**	**13,411.4**	-	**542.7**	**11,573.5**	**1,132.6**	-	**83.0**	**79.6**
Direct CO2e emissions (Scope 1)[8]	**tCO2e**	**913.2**	-	**37.0**	**788.0**	**76.9**	-	**5.8**	**5.5**
Total energy consumption	GJ	136,447.9	22,610.5	85,761.3	24,389.2	2,651.3	393.1	281.4	361.1
Total greenhouse gas emissions	tCO2e	26,633.4	5,596.1	17,375.1	3,092.6	410.2	46.4	37.8	75.2
Total gross floor area (GFA) of all properties/ premises	m^2	585,836.9	148,375.0	403,681.0	28,469.2[9]	3,624.0	631.4	511.9	544.4
Energy consumed per square meter	**GJ/m^2**	**0.3**	**0.2**	**0.2**	**0.9**	**0.7**	**0.6**	**0.5**	**0.7**
Greenhouse Gas Emission intensity from buildings	**tCO2e/m^2**	**0.05**	**0.04**	**0.04**	**0.11**	**0.11**	**0.07**	**0.07**	**0.14**

	Unit	Total	Properties under development	Properties under management	Ski operation	Offices			
			PCP, Jakarta	ISPML	NHR/ NMS	HK	Tokyo	Thailand	Jakarta
Waste KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) **Non-hazardous waste disposal to landfill**									
Construction and demolition waste	tonnes	88.3	1.11	-	87.2	-	-	-	-
Residential and domestic waste	tonnes	12,337.3	-	12,337.3	-	-	-	-	-
Grease trap waste	litres	1,440.1	-	-	-	1,440.1	-	-	-
Others (Foam/ rubber)	tonnes	5.4	5.4	-	-	-	-	-	-
Weight of waste disposed to landfill[10]	**tonnes**	**12,431.0**	**6.5**	**12,337.3**	**87.2**	**-**	**-**	**-**	**-**

[1] We have set up systems to record the environmental data required for our vehicle uses at ISPML, offices (excluding Tokyo) and ski operations. We aim to report full-year air emission data from vehicle use starting from 2018.

[2] According to Tokyo Gas Co.,Ltd., town gas is produced from natural gas, which emits minimal amounts of NOx, SOx and PMs resulting from our ski operation and Tokyo office. The calculation of NOx and SOx emissions in ISPML is based on http://www.hkex.com.hk/-/media/hkex-market/listing/rules-and-guidance/other-resources/environmental-social-and-governance/how-to-prepare-an-esg-report/app2_kpis.

[3] The permanent power supply was energised in late 2016; after that, the contractors conducted testing and commissioning for all mechanical, electrical, and plumbing systems before handover. This resulted in higher electricity consumption in 2017 as compared to that in 2016.

[4] Energy consumption from electricity is calculated based on the conversion factor (1 KWh = 0.0036 Gigajoule) sourced from Electrical and Mechanical Services Department of HKSAR Government. Energy consumption from Towngas is calculated based on conversion factors provided by local suppliers: The Hong Kong and China Gas Company states its conversion factors on their bills and Toshi Gas's conversion factor is 0.0448 GJ/m^3.

[5] CO2e emission is calculated based on default factors provided by suppliers and governments: Electricity - Ministry of Energy and Mineral Resources of Indonesia (No.3783/21/600.5/2008 – 0.891 CO2e kg/kWh), HK Electric (0.79 CO2e kg/kWh), Thailand Greenhouse Gas Management Organization (0.5813 CO2e kg/kWh), Hokkaido Electric Power Co., Inc. (0.669 CO2e kg/kWh) and TEPCO (0.500 CO2e kg/kWh); Towngas - The Hong Kong and China Gas Company Limited (0.599 CO2e kg/Unit) and Toshi Gas (2.23 CO2e kg/m3).

[6] The permanent power supply was energised in late 2016. The use of diesel for temporary power supply (by generator) is no longer required.

[7] Energy consumption of fuels is calculated based on conversion factors provided by governments and research institutions: http://w.astro.berkeley.edu/~wright/fuel_energy.html (Diesel: 0.0386 GJ/L, Petrol: 0.0342 GJ/L) and http://ghg-santeikohyo.env.go.jp/ (Kerosene: 0.0367 GJ/litre, Fuel oil: 0.0391 GJ/litre, Diesel: 0.0377 GJ/litre, Petrol: 0.0346 GJ/litre).

[8] CO2e emission from fuels is calculated based on the default factors provided by fuel suppliers and governments: Shell (Diesel: 2.63 CO2e kg/L, Petrol: 2.32 CO2e kg/L), Thailand Greenhouse Gas Management Organization (Diesel: 2.7446 CO2e kg/L, Petrol: 2.238 CO2e kg/L), Ministry of Energy and Mineral Resources of Indonesia (No.3783/21/600.5/2008 – 0.00236 tCO2e/litre) and http://ghg-santeikohyo.env.go.jp/ (Kerosene: 2.49 CO2e kg/litre, Fuel oil: 2.71 CO2e kg/litre, Diesel: 2.58 CO2e kg/litre, Petrol: 2.32 CO2e kg/litre).

[9] The increased GFA compared to 2016 is because the data for the accommodation facilities under NMS's management in Ski Operation has been included in 2017.

[10] Excluding grease trap waste (in litres)

	Unit	Total	Properties under development	Properties under management	Ski operation	Offices			
			PCP, Jakarta	ISPML	NHR/ NMS	HK	Tokyo	Thailand	Jakarta
Non-hazardous waste collected for recycling									
Paper	tonnes	195.6	1.7	151.2	37.6	3.9	0.6	0.2	0.4
Plastic	tonnes	27.3	4.0	6.9	16.4	-	-	-	-
Food	tonnes	41.0	-	-	41.0	-	-	-	-
Metal (aluminum)	tonnes	1.5	-	0.2	1.3	-	-	-	-
Metal (steel)	tonnes	7.7	1.5	3.8	2.4	-	-	-	-
Glass	tonnes	11.2	0.1	5.6	5.5	-	-	-	-
Toner cartridge	tonnes	0.2	-	0.01	0.1	0.1	0.02	-	-
Others (Styrofoam, wood, IT equipment)	tonnes	2,135.4	3.7	-	2,131.1	0.6	-	-	-
Weight of waste collected for recycling	**tonnes**	**2,419.9**	**11.0**	**167.7**	**2,235.4**	**4.6**	**0.6**	**0.2**	**0.4**
Total non-hazardous waste produced									
Total non-hazardous waste produced	**tonnes**	**14,850.9**	**17.5**	**12,505.0**	**2,322.6**	**4.6**	**0.6**	**0.2**	**0.4**
Non-hazardous waste intensity	**tonnes/ m^2**	**0.03**	**0.0001**	**0.03**	**0.08**	**0.001**	**0.001**	**0.0004**	**0.001**
Total hazardous waste produced									
Fluorescent light bulbs, tubes and batteries	tonnes	0.1	-	0.1	-	0.01	-	-	-
Total hazardous waste produced	**tonnes**	**0.1**	**-**	**0.1**	**-**	**0.01**	**-**	**-**	**-**
Hazardous waste intensity	**tonnes/ m^2**	**0.0000001**	**-**	**0.0000002**	**-**	**0.000002**	**-**	**-**	**-**
Water									
KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility)									
Total water consumption(fresh water)	**m^3**	**117,106.6**	**37,188.7**[11]	**49,769.1**	**29,502.8**	**306.0**[12]	**-**	**340.0**	**-**
Water Intensity	**m^3/sqm**	**0.2**	**0.3**	**0.1**	**1.0**	**0.1**	**-**	**0.7**	**-**

[11] We started to collect water consumption data in 2017 as permanent water supply meters were installed in January 2017.

[12] We reported the consumption of bottled water only. Water consumption charges for the Hong Kong office are included in the office management fee.

Workforce

KPI B1.1 Workforce Profile

	No. of people									
			Hong Kong		Japan		Indonesia		Other locations	
By employment type	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**
Permanent full-time staff	456	59.3%	357	84.2%	70	23.1%	16	66.7%	13	72.2%
Temporary staff	107	13.9%	67	15.8%	27	8.9%	8	33.3%	5	27.8%
Seasonal part-time staff	206	26.8%	0	-	206	68.0%	0	-	0	-
By gender										
Male	473	61.5%	274	64.6%	173	57.1%	17	70.8%	9	50.0%
Female	296	38.5%	150	35.4%	130	42.9%	7	29.2%	9	50.0%
By age group										
Under 30 years old	168	21.8%	42	9.9%	121	39.9%	4	16.7%	1	5.6%
30 to 50 years old	353	45.9%	191	45.0%	135	44.6%	16	66.7%	11	61.1%
Over 50 years old	248	32.2%	191	45.0%	47	15.5%	4	16.7%	6	33.3%
By employee category										
Operational staff	552	71.8%	288	67.9%	248	81.8%	10	41.7%	6	33.3%
Administrative staff	205	26.7%	128	30.2%	51	16.8%	14	58.3%	12	66.7%
Executive staff	12	1.6%	8	1.9%	4	1.3%	0	-	0	-
Total workforce	**769**		**424**		**303**		**24**		**18**	
Percentage		**100.0%**		**55.2%**		**39.4%**		**3.1%**		**2.3%**

STAFF TURNOVER

Workforce

KPI B1.2 Employee Turnover

	No. of people									
			Hong Kong		Japan		Indonesia		Other locations	
By gender	**total**	**turnover rate**	**total**	**turnover rate**	**total**	**turnover rate**	**total**	**turnover rate**	**total**	**turnover rate**
Male	46	16.4%	43	19.1%	2	5.0%	0	-	1	14.3%
Female	39	22.3%	38	28.8%	1	3.3%	0	-	0	-
By age group										
Under 30 years old	23	45.1%	23	54.8%	0	-	0	-	0	-
30 to 50 years old	41	16.3%	38	20.3%	3	6.4%	0	-	0	-
Over 50 years old	21	13.7%	20	15.6%	0	-	0	-	1	25%
No. of leavers	**85**		**81**		**3**		**0**		**1**	
Total turnover rate*		**18.6%**		**22.7%**		**4.3%**		**-**		**7.7%**

*Turnover rate = No. of leavers / Total no. of permanent full-time staff

OCCUPATIONAL HEALTH AND SAFETY

KPI B2.1 Number and rate of work-related fatalities

	No. of cases									
			Hong Kong		Japan		Indonesia		Other locations	
Work-related fatalities by gender	**total**	%	**total**	%	**total**	%	**total**	%	**total**	%
Male	0	-	0	-	0	-	0	-	0	-
Female	0	-	0	-	0	-	0	-	0	-
Total work-related fatalities	**0**	**-**	**0**	**-**	**0**	**-**	**0**	**-**	**0**	**-**

KPI B2.2 Lost days due to work injury

	Days									
			Hong Kong		Japan		Indonesia		Other locations	
Lost days for work-related injury	**total**	%	**total**	%	**total**	%	**total**	%	**total**	%
Male	231	-	225	-	6	-	0	-	0	-
Female	26	-	26	-	0	-	0	-	0	-
Total lost days for work-related injury	**257**		**251**		**6**		**0**		**0**	
Lost day rate*		**0.149%**		**0.206%**		**0.016%**		**-**		**-**

Number and rate of work-related injury rate

	No. of cases									
			Hong Kong		Japan		Indonesia		Other locations	
Work-related injury by gender	**total**	**rate**	**total**	**rate**	**total**	**rate**	**total**	**rate**	**total**	**rate**
Male/ Injury rate per 1,000 male employees	19	40.2	15	54.7	4	23.1	0	-	0	-
Female/ Injury rate per 1,000 female employees	7	23.6	7	46.7	0	0	0	-	0	-
No. of injured cases	**26**		**22**		**4**		**0**		**0**	
Injury rate per 1,000 employees		**33.8**		**51.9**		**13.2**		**-**		**-**

*Lost day rate = Total lost days for work-related injury / Total days scheduled to be worked for all headcount (days)

TRAINING HOURS

Workforce

KPI B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management)

	No. of people									
			Hong Kong		Japan		Indonesia		Other locations	
Employees trained by gender	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**
Male	252	53.2%	236	86.1%	12	6.9%	4	23.5%	0	-
Female	141	47.6%	135	90.0%	6	4.6%	0	-	0	-
Employees trained by employee category										
Operational staff	276	50%	267	92.7%	6	2.4%	3	30.0%	0	-
Administrative staff	113	55.1%	101	78.9%	11	21.6%	1	7.1%	0	-
Executive staff	4	33.3%	3	37.5%	1	25.0%	0	-	0	-
Total trained employees	**393**		**371**		**18**		**4**		**0**	
Percentage		**51.1%**		**87.5%**		**5.9%**		**16.7%**		**-**

KPI B3.2 The average training hours completed per employee by gender and employee category

	Hours									
			Hong Kong		Japan		Indonesia		Other locations	
Total and average training hours by gender	**total**	**average**	**total**	**average**	**total**	**average**	**total**	**average**	**total**	**average**
Male	2,059.5	4.4	1,918.5	7.0	109.0	0.6	32.0	1.9	0.0	-
Female	1,054.6	3.6	987.6	6.6	67.0	0.5	0.0	-	0.0	-
Total and average training hours by employee category										
Operational staff	1,885.0	3.4	1,805.0	6.3	56.0	0.2	24.0	2.4	0.0	-
Administrative staff	1,190.7	5.8	1,064.2	8.3	118.5	2.3	8.0	0.6	0.0	-
Executive staff	38.5	3.2	37.0	4.6	1.5	0.4	0.0	-	0.0	-
Total and average training hours completed by employee	**3,114.1**	**4.0**	**2,906.1**	**6.9**	**176.0**	**0.6**	**32.0**	**1.3**	**0.0**	**-**

Supply Chain

KPI B5.1 Number of suppliers by geographical region

	No.									
	Total		Hong Kong		Japan		Indonesia		Other locations	
By geographical region	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**
Local	370	91.6%	287	92.0%	31	96.9%	22	73.3%	30	100.0%
Non-local	34	8.4%	25	8.0%	1	3.1%	8	26.7%	0	-
Total number of suppliers	**404**	**100.0%**	**312**	**77.2%**	**32**	**7.9%**	**30**	**7.4%**	**30**	**7.4%**

Community

KPI B8.2 Contributed resources (money / hours)

		Total		Hong Kong		Japan		Indonesia		Other locations	
	No.	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**	**total**	**%**
Financial contributions	**HK$**	120,734	100.0%	104,000	86.1%	16,734	13.9%	0	-	0	-
Charitable events	**No.**	7	100.0%	4	57.1%	3	42.9%	0	-	0	-
Organisation supported	**No.**										
NGOs/ Charitable organisations		6	100.0%	4	66.7%	2	33.3%	0	-	0	-
Government/ Local community		1	100.0%	0	0.0%	1	100.0%	0	-	0	-
	hour										
Volunteering hours		328	100.0%	88	26.8%	240	73.2%	0	-	0	-

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