HONG KONG FERRY (HOLDINGS) COMPANY LIMITED

香港小輪(集團)有限公司

(Stock Code : 50)

ANNUAL REPORT 2017

10 years+ 商界展關懷 caringcompany

Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

90+ HKF (since 1923)

TUEN MUN TOWN LOT NO. 547

The Group's 50%/50% joint venture project acquired a land by public tender in August 2016, Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories for private residential purposes. The land is of a site area of 165,766 square feet. It faces Gold Coast at the front and Harrow International School Hong Kong at the back.

The project under construction consists of six residential towers providing about 1,663 units with sea view or landscape view. The gross floor area of the project is about 663,000 square feet which is expected to be completed in early 2022.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Dr. Lam Ko Yin, Colin *(Chairman)*
Mr. Li Ning

Non-executive Directors:

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee
Mr. Wong Man Kong, Peter

Independent Non-executive Directors:

Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

AUDIT COMMITTEE

Mr. Ho Hau Chong, Norman *(Chairman)*
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

REMUNERATION COMMITTEE

Mr. Wu King Cheong *(Chairman)*
Dr. Lam Ko Yin, Colin
Mr. Li Ning
Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina

NOMINATION COMMITTEE

Dr. Lam Ko Yin, Colin *(Chairman)*
Mr. Li Ning
Mr. Ho Hau Chong, Norman
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

GROUP GENERAL MANAGER

Ir. Dr. Ho Chi Shing, David

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter

AUDITOR

KPMG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd. Hong Kong Branch
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
OCBC Wing Hang Bank Limited
Mizuho Bank, Limited

REGISTERED OFFICE

98 Tam Kon Shan Road
TYTL 102
Ngau Kok Wan
North Tsing Yi
New Territories
Hong Kong

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SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 50

SHARE REGISTRAR

Tricor Standard Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

DIRECTORS' PROFILE

Dr. Lam Ko Yin, Colin, *SBS, FCILT, FHKIoD, DB(Hon)*, aged 66, was appointed on 1 July 1986, is the Chairman of the Company. Dr. Lam has over 44 years' experience in banking and property development. He is also a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited, a non-executive director of The Hong Kong and China Gas Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. He is also a director of Wiselin Investment Limited ("Wiselin"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Wiselin, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. He was awarded the Silver Bauhinia Star (SBS) by the Government of the Hong Kong Special Administrative Region in 2017. Dr. Lam is the Deputy Chairman of The University of Hong Kong Foundation for Educational Development and Research and a Director of Fudan University Education Development Foundation. Dr. Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008, and was conferred with a degree of Doctor of Business (Honoris Causa) by Macquarie University in 2015. Dr. Lam is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors.

Dr. Lam Ko Yin, Colin
Chairman

Mr. Li Ning, *BSc, MBA*, aged 61, was appointed on 20 October 1989, is an Executive Director of the Company. Mr. Li is also an Executive Director of Henderson Investment Limited, a listed public company. He holds a B.Sc. degree from Babson College and an M.B.A. degree from the University of Southern California. He previously served as an Executive Director of Henderson Land Development Company Limited, a listed public company, until his retirement on 2 June 2015. Mr. Li is the son-in-law of Dr. Lee Shau Kee, a Non-executive Director of the Company.

Mr. Li Ning

Mr. Au Siu Kee, Alexander

Mr. Au Siu Kee, Alexander, *OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB*, aged 71, was appointed as an Independent Non-executive Director on 17 January 2005 and re-designated as a Non-executive Director of the Company on 7 November 2005. Mr. Au is a well-known banker in Hong Kong and has more than 32 years' experience in local and international banking business, having been the Chief Executive Officer of Hang Seng Bank Limited (from October 1993 to March 1998) and of Oversea-Chinese Banking Corporation Limited in Singapore (from September 1998 to April 2002). Mr. Au previously served as an independent non-executive director of The Wharf (Holdings) Limited until 23 November 2017. Currently, he is an independent non-executive director of Henderson Investment Limited and Wharf Real Estate Investment Company Limited, and a non-executive director of Miramar Hotel and Investment Company, Limited, all of which are listed companies. He is the chairman and a non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. Mr. Au is a member of the Finance Committee of The Independent Schools Foundation Limited. Mr. Au was re-designated as an independent non-executive director of Henderson Land Development Company Limited, a listed public company, on 18 December 2012 until his retirement on 2 June 2015. An accountant by training, Mr. Au is a Fellow of The Institute of Chartered Accountants in England and Wales, The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Lau Yum Chuen, Eddie

Mr. Lau Yum Chuen, Eddie, aged 71, was appointed on 5 May 1988, is a Non-executive Director of the Company. He has over 45 years of experience in banking, finance and investment. Mr. Lau is also an Executive Director of Henderson Land Development Company Limited ("Henderson Land") and Miramar Hotel and Investment Company, Limited, both are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance.

Dr. the Hon. Lee Shau Kee, *GBM, DBA(Hon), DSSc(Hon), LLD(Hon)*, aged 89, was appointed on 15 December 1981, is a Non-executive Director of the Company. He has been engaged in property development in Hong Kong for more than 60 years. He is the founder and the Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land"), the Chairman of The Hong Kong and China Gas Company Limited, the Vice Chairman of Sun Hung Kai Properties Limited as well as a non-executive director of Miramar Hotel and Investment Company, Limited. He is the founder, and continues to act as an Executive Director of Henderson Investment Limited after his stepping down as the Chairman and Managing Director on 1 July 2015. All the above companies are listed public companies. Dr. Lee was awarded the Grand Bauhinia Medal (GBM) by the Government of the Hong Kong Special Administrative Region in 2007. He is a director of Pataca Enterprises Limited ("Pataca"), Wiselin Investment Limited ("Wiselin"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Pataca, Wiselin, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. Dr. Lee is the father-in-law of Mr. Li Ning, an Executive Director of the Company.

Dr. the Hon. Lee Shau Kee

Mr. Wong Man Kong, Peter, *BBS, JP, BSc, FCILT, MRINA*, aged 69, was appointed on 9 March 1992, is a Non-executive Director of the Company. Mr. Wong was the President and Chief Executive Officer of the Company from 1992 to 1995. Mr. Wong has over 45 years of industrial, commercial and public service experience, having served as Director of Kowloon-Canton Railway Corporation and a member in Hong Kong Government's Transport Advisory Board, Industry Development Board and Trade Advisory Board. He was also a member of the Hong Kong Special Administrative Region Preparatory Committee in 1996/1997 and a member of the Election Committee of the Second Chief Executive of the Hong Kong Special Administrative Region in 2002. He is a deputy to the 12th National People's Congress of the People's Republic of China and he will continue to serve as a deputy to the 13th National People's Congress from 2018. Mr. Wong is the Chairman of M.K. Corporation Limited and North West Development Limited. Currently he holds directorship of Glorious Sun Enterprises Limited, China Travel International Investment Hong Kong Limited, Sun Hung Kai & Co. Limited, Sino Hotels (Holdings) Limited, Far East Consortium International Limited, New Times Energy Corporation Limited and MGM China Holdings Limited, all of which are listed public companies. Mr. Wong retired as an independent non-executive director of Chinney Investments, Limited, a listed public company, on 25 August 2017.

Mr. Wong Man Kong, Peter

Mr. Ho Hau Chong, Norman

Mr. Ho Hau Chong, Norman, *BA, ACA, FCPA*, aged 62, was appointed on 28 March 1995, is an Independent Non-executive Director of the Company. Mr. Ho is a member of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho is an Executive Director of Honorway Investments Limited and Tak Hung (Holding) Company, Limited and has over 26 years of experience in management and property development. He is also a Director of Lee Hing Development Limited, Miramar Hotel and Investment Company, Limited, Vision Values Holdings Limited and Shun Tak Holdings Limited, all of which are listed public companies. He was previously a director of Taifook Securities Group Limited. Mr. Ho previously served as a director of CITIC Pacific Limited, until 12 May 2011 and an independent non-executive director of Starlight International Holdings Limited, until his retirement on 26 August 2013, both are listed public companies.

Mr. Leung Hay Man

Mr. Leung Hay Man, *FRICS, FCIArb, FHKIS*, aged 83, was appointed on 15 December 1981 and was re-designated as an Independent Non-executive Director of the Company on 15 October 2012. He is a Chartered Surveyor. Mr. Leung was also re-designated as an Independent Non-executive Director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited on 22 August 2012 and is an Independent Non-executive Director of The Hong Kong and China Gas Company Limited, all of which are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance.

Ms. Wong Yu Pok, Marina, *JP*, aged 69, was appointed on 8 May 2008, is an Independent Non-executive Director of the Company. Ms. Wong joined PricewaterhouseCoopers in 1968 and was responsible for the development of the firm's business in Mainland China since 1980. After her retirement as a partner from PricewaterhouseCoopers in July 2004, she joined Tricor Services Limited as a director from September 2004 to February 2006. Ms. Wong is a member of a number of Government advisory and other bodies in Hong Kong, including The Dental Council of Hong Kong and was the Chairman of The Applied Research Council up to February 2017. Ms. Wong is the Vice-Chairman of the Hong Kong Federation of Women and a director of China Tibetan Children Health & Education Fund. An accountant by training, Ms. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. She is also an Independent Non-Executive Director of Kerry Properties Limited, Luk Fook Holdings (International) Limited and Kerry Logistics Network Limited, all of which are listed public companies in Hong Kong. She ceased to act as an independent director of China World Trade Center Company Ltd. on 23 November 2016, a company listed on the Shanghai Stock Exchange.

Ms. Wong Yu Pok, Marina

Mr. Wu King Cheong, *BBS*, *JP*, aged 67, was appointed as an Independent Non-executive Director of the Company on 17 January 2005. He is the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Securities Association Limited. Mr. Wu is currently an independent non-executive director of Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited, Miramar Hotel and Investment Company, Limited and Yau Lee Holdings Limited, all of which are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. Mr. Wu was awarded an Honorary Fellowship by Lingnan University in 2009.

Mr. Wu King Cheong

SENIOR MANAGEMENT'S PROFILE

The Senior Management of the Company is as follows:

Ir. Dr. Ho Chi Shing, David	Group General Manager and General Manager – Ferry and Property Operations
Mr. Leung Shu Keung, Brian	Internal Audit Manager
Mr. Wong Kam Chuen, Terence	Deputy General Manager – Finance and Accounts
Mr. Yuen Wai Kuen, Peter	Company Secretary

Ir. Dr. Ho Chi Shing, David, *JP, DBA, FCILT, FHKIE, FCIM, FHKIoD, MPIA, MCIArb, MCIHT*, aged 61, joined the Company in 1981 and has been the Group General Manager since 1996. He has over 37 years of experience in ferry operations. Dr. Ho was appointed as a Justice of the Peace in 2013. He is presently a member of the Logistics Industry Training Advisory Committee, the Deputy Convener of Transportation & Logistics Industry Consultative Network of Employees Retraining Board, a Director of The Shipowners' Mutual Protection & Indemnity Association (Luxembourg), a Council Member of the Chartered Institute of Logistics and Transport in Hong Kong, the Chairman of Adventure-Ship, a board member of The Hong Kong Sea School, an Adjunct Professor at the College of Business of City University of Hong Kong and a member to the Review Committee of The Dental Council of Hong Kong. Dr. Ho has been extensively involved in works of the Vocational Training Council and was awarded VTC Honorary Fellow Award in 2007. He is currently the Chairman of the Transport Logistics Training Board and the Chairman of Languages Discipline Advisory Board. Dr. Ho is also a General Committee Member and the Chairman of the Transport and Logistics Services Council of the Federation of Hong Kong Industries.

Mr. Leung Shu Keung, Brian, *BA, CIA, CRMA, CFE, CBM, PgD*, aged 56, is the Internal Audit Manager of the Company. He joined the Company in 1992 and has over 28 years of experience in accounting, auditing and management assurance.

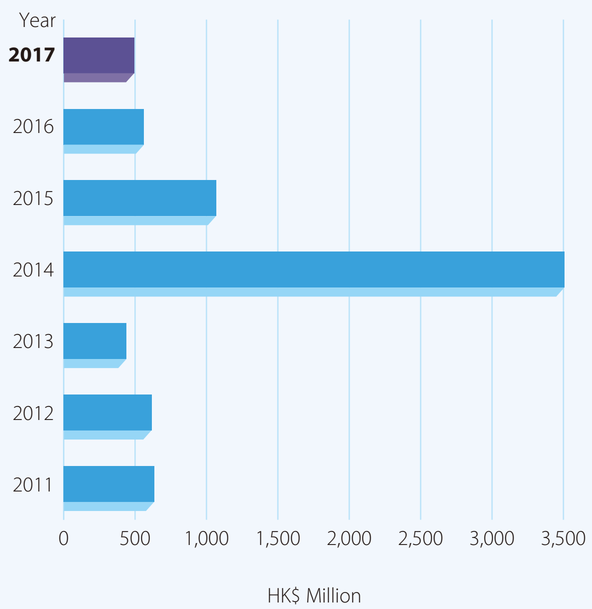
Mr. Wong Kam Chuen, Terence, *MCF, BA(Hons), FCCA, CPA, ACIS, ACS*, aged 49, has been the Deputy General Manager of Finance and Accounts Department of the Company since September 2013. He joined the Company in 1995 and has over 20 years of experience in accounting, auditing and corporate finance.

Mr. Yuen Wai Kuen, Peter, *BA(Hons), MBA, FCIS, FCS, FFA*, aged 59, has joined the Company in January 2005 and has been appointed Company Secretary of the Company on 1 April 2005. Mr. Yuen has over 20 years of experience in company secretarial, corporate advisory and general management.

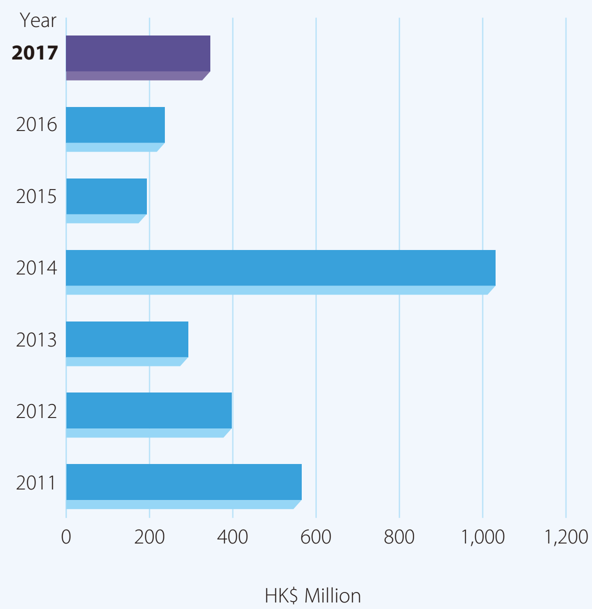
FINANCIAL HIGHLIGHTS

		2017	2016	Variance
Revenue	*HK$M*	**494**	562	-12.1%
Profit attributable to shareholders	*HK$M*	**346**	237	46.0%
Dividends	*HK$M*	**135**	128	5.5%
Shareholders' funds	*HK$M*	**6,011**	5,790	3.8%
Basic earnings per share	*HK$*	**0.97**	0.66	47.0%
Dividend per share	*HK Cents*	**38.0**	36.0	5.6%
Dividend cover	*Times*	**2.6**	1.8	44.4%
Return on equity	*%*	**5.8**	4.1	41.5%
Net assets per share	*HK$*	**16.9**	16.3	3.7%

Group Revenue



Profit attributable to shareholders



CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders my report on the operations of the Group for the year ended 31 December 2017.

Dr. Lam Ko Yin, Colin
Chairman

BUSINESS RESULTS

The Group's consolidated profit after taxation for the year ended 31 December 2017 amounted to approximately HK$346 million, an increase of 46% as compared with the profit after taxation of HK$237 million last year. The earnings per share this year were HK$0.97 compared with the earnings per share of HK$0.66 in the previous year.

DIVIDENDS

The Board of Directors has recommended the payment of a final dividend for the year ended 31 December 2017 of HK28 cents per share (2016: HK26 cents per share). Subject to shareholders' approval at the annual general meeting to be held on Monday, 28 May 2018, the final dividend will be paid on or about Thursday, 14 June 2018 to shareholders whose names appear on the register of members of the Company on Thursday, 7 June 2018. The final dividend, together with the interim dividend of HK10 cents per share already paid, will make a total distribution of HK38 cents for the full year.

BUSINESS REVIEW

During the year under review, profit for the Group was mainly derived from the sale of the residential units of Green Code and The Spectacle and the car parking spaces of Shining Heights.

Property Development and Investment Operations

During 2017, the profit of the Group from the sale of the residential units of Green Code, The Spectacle and Metro6 and car parking spaces of Shining Heights amounted to HK$129 million. The pre-sale of Harbour Park was satisfactory and over 97% of the residential units had been sold. The occupation permit has been issued in January 2018 and the flats would be handed over to the owners for occupation in the first half year of 2018.

The gross rental income from the commercial arcades of the Group amounted to approximately HK$95 million. As at the end of 2017, the commercial arcades of Shining Heights, The Spectacle and Metro6 were fully let. The occupancy rate of commercial arcades of Metro Harbour View and Green Code Plaza were 99% and 94% respectively.

Joint Venture Company

The construction of the Group's 50%/50% joint venture project with Empire Group Holdings Limited located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories (Tuen Mun Town Lot No. 547) has been in good progress.

Green Code

The project under construction consists of six residential towers providing about 1,663 units with sea view or landscape view. The gross floor area of the project is about 663,000 square feet which is expected to be completed in early 2022. Merits of the project include sizeable outdoor gardens and integrated clubhouse facilities, proximity to the yacht club and the renowned international school, convenient transportation to Shenzhen via Western Corridor, between Kowloon via the highways, between Central of Hong Kong Island via Western Harbour Tunnel, and between Chek Lap Kok Airport via the future Tuen Mun Tunnel.

Ferry, Shipyard and Related Operations

During the year under review, the Ferry, Shipyard and Related Operations recorded a profit of HK$30 million, showing a 120% increase as compared with last year. Both revenue and profit of the shipyard business have shown increase.

Securities Investment

During the year, a profit of HK$89 million in Securities Investment was recorded mainly due to the disposal of available-for-sale securities of the Group.

PROSPECTS

Hong Kong enjoyed a robust macro economy in 2017. The local consumption power is strong, likewise the real estate market and the stock market. Unemployment rate is a mere 2.9%, a 10-year record low. Looking ahead in 2018, the main challenge will come from the rising interest rate of the U.S. dollar. If the United States repeatedly raises interest rates during the year, the Hong Kong interest rate will inevitably and sparingly follow due to the linked exchange rate, thereby increasing the burden in mortgage payments. With the promulgation of trade protectionism by U.S. President Donald Trump, China may be affected to certain extent. It is fortunate that the central government leaders have remarkable foresight in implementing proactive policies to gradually change from an export-oriented economy to a consumption-led economy, thereby minimizing the negative impacts.

For the local real estate market in the coming year, it is expected that after years of rapid growth, price levels will remain stable with an upward bias. The Group's Harbour Park project has been granted occupation permit in January 2018 and profits derived from the pre-sale of 97% of the units will be accounted for in 2018. Coupled with the rental income from the commercial arcades, they will comprise the Group's main source of income for the coming year.

ACKNOWLEDGEMENT

On behalf of the shareholders and the Board, I would like to take this opportunity to express appreciation to all our staff for their dedication and hard work during the year.

Dr. Lam Ko Yin, Colin
Chairman

Hong Kong, 20 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

The following comments should be read in conjunction with the Audited Consolidated Financial Statements of the Company and the related notes to the financial statements.

REVIEW OF RESULTS

The Group's revenue from continuing operations for the year amounted to approximately HK$494 million, representing a decrease of 2% when compared to the previous year. This was mainly attributed to the decrease in the sale of residential units of Shining Heights.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2017, shareholders' funds of the Group showed an increase of around 4% as compared to the previous year and amounted to approximately HK$6,011 million. The increase was mainly due to the net effect of the profit realised from property sales, the gains on revaluation of the Group's investment properties, gain on disposal of the securities and the payment of dividends.

There was no change to the capital structure of the Group during the year. Funding for the Group's activities during the year under review was mainly generated from the sale of the Group's properties and other operations.

During the year, there was no material acquisition and disposal of subsidiary and associate.

Current assets of the Group were recorded at approximately HK$3,070 million and the current liabilities were approximately HK$760 million as of 31 December 2017. Current ratio of the Group had been increased to 4 as at 31 December 2017, mainly attributed to the increase in cash and bank balances.

CHARGE OF ASSETS

As at 31 December 2017, shares in the Joint Venture Company were charged to secure the loan facility made available by banks to the Joint Venture Company. Details of the loan facility, the relevant guarantees granted and the securities provided are set out in note 29 on page 146 and note 30(b)(xiii) on page 152 to the financial statements of this Annual Report.

GEARING RATIO AND FINANCIAL MANAGEMENT

As there was no borrowing as at 31 December 2017, no gearing ratio, which is calculated on the basis of bank borrowing as a ratio of the Group's shareholders' fund, was shown.

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extended to the Group were denominated in Hong Kong dollar.

EMPLOYEES

As at 31 December 2017, the number of employees of the Group stood at about 210 (2016: about 210). The remuneration packages to employees were commensurable to the market trend and levels of pay in similar industries. A discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees included medical insurance, retirement scheme, training programmes and educational subsidies. Total employees' costs for the year amounted to approximately HK$91 million, which was commensurate with that recorded in the previous year.

Metro6

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS

Hong Kong Ferry (Holdings) Company Limited (the "Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development, property investment, ferry, shipyard and related businesses and securities investment.

The analysis of the principal activities of the Company and its subsidiaries (the "Group") during the financial year are set out in note 3 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year is provided in Management Discussion and Analysis on page 12 and Chairman's Statement on pages 10 and 11 of this Annual Report. A discussion on the Group's future business development is provided in the Chairman's Statement on pages 10 and 11 of this Annual Report. Description of the principal risks and uncertainties that the Group may be facing can be found in the Chairman's Statement on pages 10 and 11 and the section of Risk Management and Internal Controls on pages 35 to 38 of Corporate Governance Report of this Annual Report. Financial risk management of the Group can be found in note 26 to the financial statements on pages 142 to 145 of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on page 9 and Ten Years' Financial Summary on pages 161 and 162 of this Annual Report respectively.

Discussions on the Group's environmental policies and performance, relationships with its key stakeholders which have a significant impact on the Group are contained in Environmental, Social and Governance Report on pages 41 to 72 of this Annual Report. These discussions form part of this Report of the Directors.

Discussion on Environmental Policies and Performance

The Hong Kong Ferry Group carries out its strong commitment to environmental stewardship through the responsible use of resources and adoption of sustainable practices in daily operations. The Group instils a sense of responsibility of environmental protection and continually identifies opportunities to improve performance in this area. The Energy and Carbon Management Programme has been in place since 2011 and carbon audits have been carried out for our two fuel-intensive shipyard subsidiaries. At our Principal and subsidiary offices, we continue to explore and undertake energy efficient solutions, providing energy-saving and other environmental benefits, which are constantly monitored by commissioned environmental consultants. Energy performance is also taken into consideration in our property development and investment business division where we closely adhere to the latest requirements of the government and the Hong Kong Green Building Council's BEAM Plus.

The Group places great emphasis on improving the air quality of the harbour, which helps safeguard the health and well-being of the community. With our continuing efforts in reducing emissions, we have successfully completed a self-initiated voluntary replacement programme to switch generators and engines on all our vessels with eco-friendly options. We extended our water conservation efforts through the installation of automated water faucets and water-saving aerators at the Principal Office and at Harbour Cruise - Bauhinia operations. Water collected from the on-site rainwater harvesting tank at The Hong Kong Shipyard Limited was utilised for day-to-day operations to help reduce freshwater consumption. We made considerable efforts to ensure waste and other useful resources are reused, recovered and recycled whenever possible before considering disposal in landfills.

BUSINESS REVIEW (Continued)

Account of Key Relationships with Employees, Customers and Suppliers

The Group upholds the highest standards of business ethics that govern how we maintain our relationships with our key stakeholders. We regularly engage and communicate with our employees, customers and suppliers and provide rapid and effective responses to address their needs and concerns.

Employees

Employees are the cornerstone of our long-term success. The Group appreciates and recognises our employees by offering competitive remuneration packages, attractive fringe benefits, and undertaking a fair annual appraisal exercise which enables employees to assess their progress and plan their career development. As an equal opportunity employer, we have created a fair and transparent recruitment process for talent acquisition, where all relevant anti-discrimination and personal data protection regulations are strictly observed. The Group understands the importance of enhancing the work skills, capabilities, and professional knowledge of our people. Thus, we encourage our employees to pursue different interests and provide internal and external trainings to unleash their full potential. To ensure workplace health and safety, the Safety Committee was established to oversee safety matters and mitigate potential occupational health and safety risks at The Hong Kong Shipyard Limited. Regular safety inspections are carried out by our Safety Officer to ensure safe operations and identify areas for rectification as appropriate.

Customers

The Group endeavours to provide safe, reliable and thoughtful services to fulfil our customers' expectations and cater to their needs. We engage our customers through regular customer satisfaction surveys and detailed client feedback from the Service Evaluation Record, which enables us to learn about our strengths and weaknesses and understand customers' expectations regarding our services. Analysing the results from the customer engagement helps the Group to develop business strategies and improve performances which align with customer expectations. Our Ferry, Shipyard and Harbour Cruise – Bauhinia operations adopt the internationally recognised ISO 9001:2008 Quality Management Systems, which provide an effective internal protocol to control the quality of the products and services we deliver across our diversified operations. The Group observes and respects all customer data privacy and intellectual property rights by strictly complying with all relevant laws and regulations.

Suppliers

As a long-standing company in Hong Kong, we maintain long-term relationships with our key suppliers and business partners. The Group regularly updates our database of approved suppliers and carries out performance reviews to assess the quality of our suppliers' services through a Supplier Evaluation Report and Supplier Performance Review. All suppliers and contractors must comply with all local environmental, employment and safety related regulations. Our Code of Conduct governs the fairness and openness of our procurement and tendering procedures, which ensures impartial and unbiased selection of competent suppliers and contractors.

Compliance Status with Relevant Laws and Regulations that have a Significant Impact on the Business

During the reporting year, the Group received no reported cases of non-compliance with applicable standards, laws and regulations on the environment, labour standards, occupational health and safety, anti-corruption, customer privacy and intellectual property in Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's purchases attributable to the major suppliers during the year is as follows:

	Percentage of the Group's total purchases
The largest supplier	68.4%
Five largest suppliers in aggregate	78.7%

No analysis in respect of the Group's major customers is shown as the percentage of revenue attributable to the Group's five largest customers is less than 30%.

Apart from the foregoing, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

SUBSIDIARIES

Details of the principal subsidiaries of the Company at 31 December 2017 are set out in note 14 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the financial statements on pages 79 to 159.

An interim dividend of HK10 cents per share (2016: HK10 cents per share) was paid on 28 September 2017. The Board of Directors has recommended the payment of a final dividend for the year ended 31 December 2017 of HK28 cents per share (2016: HK26 cents per share). Subject to shareholders' approval at the annual general meeting to be held on Monday, 28 May 2018 (the "2018 annual general meeting"), the final dividend will be paid on or about Thursday, 14 June 2018 to shareholders whose names appear on the register of members of the Company on Thursday, 7 June 2018.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$5,880 (2016: HK$7,568).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

DIRECTORS

The directors of the Company during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors

Dr. Lam Ko Yin, Colin *(Chairman of the Board)*
Mr. Li Ning

Non-executive Directors

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee
Mr. Wong Man Kong, Peter

Independent Non-executive Directors

Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

A list of the names of the Directors of the Group's subsidiaries is available on the website of the Company (www.hkf.com).

In accordance with Article 103(A) of articles of association of the Company (the "Articles of Association") and Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Dr. Lam Ko Yin, Colin, Dr. Lee Shau Kee, Mr. Ho Hau Chong, Norman and Mr. Wu King Cheong shall retire by rotation at the 2018 annual general meeting, and, being eligible, offer themselves for re-election. Mr. Ho Hau Chong, Norman and Mr. Wu King Cheong have served as Independent Non-executive Directors of the Company for more than nine years. Pursuant to the Code, their re-elections shall be subject to two separate resolutions to be approved by the shareholders at the 2018 annual general meeting.

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all of them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details, of Directors and Senior Management are set out in the Directors' and Senior Management's Profile on pages 3 to 8 of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of Directors' and Chief Executive's emoluments are set out in note 8 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for the "Connected Transactions" as disclosed in this report, no other transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the 2018 annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

PERMITTED INDEMNITY PROVISION

According to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Companies Ordinance, Chapter 622 of the Laws of Hong Kong which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 31 December 2017, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Interests

	THE COMPANY				
	Personal Interests *Number of Shares*	**Corporate Interests** *Number of Shares*	**Family Interests** *Number of Shares*	**Total Interests** *Number of Shares*	**Approximate percentage of the total number of issued shares**
Dr. Lam Ko Yin, Colin	150,000	–	–	150,000	0.04%
Mr. Au Siu Kee, Alexander	–	–	–	–	0.00%
Mr. Ho Hau Chong, Norman	3,313,950	–	–	3,313,950	0.93%
Mr. Lau Yum Chuen, Eddie	–	–	–	–	0.00%
Dr. Lee Shau Kee	799,220	119,017,090 *(Note 5 on page 19)*	–	119,816,310	33.63%
Mr. Leung Hay Man	2,250	–	–	2,250	0.00%
Mr. Li Ning	–	–	119,017,090 *(Note 4 on page 19)*	119,017,090	33.41%
Mr. Wong Man Kong, Peter	1,051,000	–	–	1,051,000	0.29%
Ms. Wong Yu Pok, Marina	–	–	–	–	0.00%
Mr. Wu King Cheong	–	–	–	–	0.00%

	20K COMPANY LIMITED	
	Corporate Interests *Number of Shares*	**Family Interests** *Number of Shares*
Dr. Lee Shau Kee *(Note 1)*	5	–
Mr. Li Ning *(Note 2)*	–	5

	WINWIDE LIMITED	
	Corporate Interests *Number of Shares*	**Family Interests** *Number of Shares*
Dr. Lee Shau Kee *(Note 3)*	70	–
Mr. Li Ning *(Note 4)*	–	70

DISCLOSURE OF INTERESTS (Continued)

Directors' Interests in Securities (Continued)

Interests (Continued)

Notes:

1. These 5 shares representing 50% equity interest in 2OK Company Limited (an associated company in which the Company through a subsidiary owned the remaining 50% interest) were beneficially owned by wholly-owned subsidiaries of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") beneficially owned more than one-third of the total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares which carried the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in these 5 shares in 2OK Company Limited.

2. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 5 shares in 2OK Company Limited as Mr. Li's spouse was one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

3. These 70 shares representing 70% equity interest in Winwide Limited (an associated company in which the Company through a subsidiary owned the remaining 30% interest) were beneficially owned by a company in which HLD had a 40% interest and HD had the remaining 60% indirect interest. HD beneficially owned more than one-third of the total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the respective discretionary trusts held units in the Unit Trust. Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares which carried the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in these 70 shares in Winwide Limited.

4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 70 shares in Winwide Limited as Mr. Li's spouse was one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

Other than as stated above, no directors or chief executives of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares (in respect of positions held pursuant to equity derivatives), underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2017.

SUBSTANTIAL SHAREHOLDERS AND OTHERS

As at 31 December 2017, the interests in ordinary shares of the Company of every person as recorded in the register required to be kept under Section 336 of the SFO were as follows:

	Number of shares in which interested	Approximate percentage of the total number of issued shares
Substantial Shareholders		
Henderson Land Development Company Limited *(Note 1)*	119,017,090	33.41%
Pataca Enterprises Limited *(Note 1)*	119,017,090	33.41%
Wiselin Investment Limited *(Note 1)*	48,817,090	13.70%
Henderson Development Limited *(Note 2)*	119,017,090	33.41%
Hopkins (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Rimmer (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Riddick (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Mr. Li Ning *(Note 4)*	119,017,090	33.41%
Dr. Lee Shau Kee *(Note 5)*	119,816,310	33.63%
Persons other than Substantial Shareholders		
Graf Investment Limited *(Note 1)*	23,400,000	6.57%
Mount Sherpa Limited *(Note 1)*	23,400,000	6.57%
Paillard Investment Limited *(Note 1)*	23,400,000	6.57%

Notes:

1. These 119,017,090 shares included the 48,817,090 shares, 23,400,000 shares, 23,400,000 shares and 23,400,000 shares respectively beneficially owned by Wiselin Investment Limited, Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were subsidiaries of Pataca Enterprises Limited which in turn was a subsidiary of Henderson Land Development Company Limited ("HLD").

2. These 119,017,090 shares are duplicated in the interests described in Note 1. Henderson Development Limited ("HD") beneficially owned more than one-third of the total number of issued shares of HLD.

3. These 119,017,090 shares are duplicated in the interests described in Notes 1 and 2. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares, which carry the voting rights in the share capital of HD.

4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 119,017,090 shares as Mr. Li's spouse was one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 119,017,090 shares are duplicated in the interests described in Notes 1, 2 and 3.

5. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in 119,017,090 shares which are duplicated in the interests described in Notes 1, 2 and 3. Together with his personal shareholding of 799,220 shares, Dr. Lee Shau Kee was taken to be interested in 119,816,310 shares (approximately 33.63% of the total number of issued shares of the Company) as at 31 December 2017.

Save as disclosed, as at 31 December 2017, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

RESERVES

Profits attributable to shareholders, before dividend, of HK$346,292,000 (2016: HK$236,678,000) have been transferred to reserves. Other movements in reserves during the year are set out in note 25 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

ARRANGEMENT TO PURCHASE SHARES, WARRANTS, OPTIONS OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors, chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares, options, debentures or warrants of the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2017, the Company has not entered into any equity-linked agreements.

FINANCIAL SUMMARIES

The five years' summary of assets and liabilities and ten years' financial summary of the Group are set out on pages 160 to 162 of this Annual Report.

GROUP PROPERTIES

A summary of the Group's properties is set out on pages 163 and 164 of this Annual Report.

RETIREMENT PLANS

The Group's Hong Kong employees participate either in a defined benefit retirement scheme or a Mandatory Provident Fund scheme. Particulars of these retirement plans are set out in note 18 to the financial statements.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

As at 31 December 2017, the Group had granted financial assistance and a guarantee to Win Standard Enterprises Limited, the Joint Venture Company held indirectly by the Company as to 50% and Empire Group Holdings Limited ("Empire Group") as to 50% as set out below:

	Group's attributable interest	Amount of advances made by the Group *Note 1* *HK$'000*	Guarantee given for the Joint Venture Company in respect of a bank facility *Note 2* *HK$'000*	Total financial assistance made available by the Group *HK$'000*
The Joint Venture Company	50%	1,389,692	1,500,000	2,889,692

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES (Continued)

Notes:

1. Such advances were funded (in proportion to the Group's 50% equity interest in the Joint Venture Company) by the Group's internal resources and from its cash deposits, to finance the payment of the land premium of HK$2,708,800,000 and professional fees incurred in relation to the acquisition of Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, Hong Kong (the "Land") from the Government by public tender.

2. In May 2017, a loan facility agreement was entered into among, among others, the Joint Venture Company (as borrower), the Company (as guarantor), a subsidiary of Empire Group (as guarantor), Empire Group and the financial institutions named therein (as lenders) in relation to a term loan facility in the aggregate principal amount of HK$3,000,000,000 for the purpose of financing and refinancing the demolition cost, construction cost and professional fees in relation to the development on the Land and the selling and marketing expenses in relation thereto. The loan facility is secured by, among others, a corporate guarantee granted by the Company in respect of 50% of the loan facility.

The advances made by the Group to the Joint Venture Company consisted of an amount due from the Joint Venture Company and a loan to the Joint Venture Company. The amount due from the Joint Venture Company was unsecured, interest-bearing at a rate to be agreed between the Group and Empire Group and had no fixed terms of repayment (subject to the deed of subordination and assignment in favour of the lenders of the loan facility). The loan to the Joint Venture Company was unsecured, interest-bearing at a rate to be agreed between the Group and Empire Group and recoverable on demand (subject to the deed of subordination and assignment in favour of the lenders of the loan facility).

Pursuant to Rule 13.22 of the Listing Rules, a combined statement of financial position of the Company's affiliated companies (as defined in the Listing Rules) with financial assistance from the Group and the Group's attributable interest in those affiliated companies as at 31 December 2017 are presented as follows:

	Combined statement of financial position *HK$'000*	Group's attributable interests *HK$'000*
Non-current assets	13,981	6,991
Current assets	2,781,614	1,390,807
Current liabilities	(72,932)	(36,466)
Total assets less current liabilities	2,722,663	1,361,332
Non-current liabilities	(2,736,762)	(1,368,381)
Net liabilities	(14,099)	(7,049)

The combined statement of financial position of the Company's affiliated companies was prepared by combining their statements of financial position, after making adjustments to conform to the Group's significant accounting policies and re-grouping into significant classification in the statement of financial position, as at 31 December 2017.

CONNECTED TRANSACTIONS

Pursuant to the transactions and arrangements entered into by the Group with persons who are connected persons for the purposes of the Listing Rules, the Group recorded the transactions as described in note 30 to the financial statements.

Continuing Connected Transactions

For the year ended 31 December 2017 and up to the date of this Annual Report, the Company and/or its subsidiaries have been entered into certain continuing connected transactions, with details below, which were subject to reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules:

	Date	Connected Persons	Transactions
1.	24 December 2013	Henderson Property Agency Limited ("HPAL"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD")	Hung Hom Sales Management Agreement between Well Dynamic Limited ("WDL"), a wholly-owned subsidiary of the Company, and HPAL, for the appointment of HPAL as the sales manager of the development of Hung Hom Inland Lot No. 555, Kowloon, Hong Kong located at the junction of Gillies Avenue South and Bulkeley Street, Hung Hom, Kowloon, Hong Kong (the "Hung Hom Property") for a term of three years commencing from 1 January 2014 to 31 December 2016. Hung Hom Sales Management Agreement expired on 31 December 2016.
	6 January 2017	HPAL	WDL entered into the Letter Agreement with HPAL for the appointment of HPAL as the sales manager to provide the Services (as defined in the Hung Hom Sales Management Agreement) in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further period of one year commencing from 1 January 2017 and ended on 31 December 2017. The aggregate amount of fees receivable by HPAL as remuneration under the appointment were subject to a ceiling of HK$1,000,000 for the year ended 31 December 2017. The Letter Agreement expired on 31 December 2017.
	1 December 2017	HPAL	WDL entered into the Second Letter Agreement with HPAL for the appointment of HPAL as the sales manager to provide the Services (as defined in the Hung Hom Sales Management Agreement) in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further term of three years commencing from 1 January 2018 to 31 December 2020 (the "Term of Appointment"). The aggregate amount of fees receivable by HPAL as remuneration under the appointment shall be subject to a ceiling of HK$1,000,000 per annum during the Term of Appointment.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
2.	28 March 2014	Citistore (Hong Kong) Limited ("Citistore"), an indirectly non-wholly owned subsidiary of HLD	The Group (by Henderson Real Estate Agency Limited ("HREAL"), a wholly-owned subsidiary of HLD, as agent) entered into the Tenancy Renewal Agreement with Citistore as tenant for renewing the tenancy of Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, and Shop Nos. 127-161 and corridors and toilets on Level 1, Metro Harbour Plaza ("MHP"), Tai Kok Tsui, Kowloon, Hong Kong. The Group (by HREAL as agent) also entered into an External Wall Signage Licence Agreement and an Entrance Signage Licence Agreement with Citistore as licensee for licensing of three external wall signages at MHP and one signage at the entrance of MHP, respectively. The Tenancy Renewal Agreement, the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are for a term of three years commencing from 1 July 2014. The aggregate rentals, management fees, air-conditioning charges, promotional levy and other miscellaneous charges (exclusive of Government rates) under the Tenancy Renewal Agreement and the licence fees under the Licence Agreements, subject to annual ceiling of HK$6,600,000 for the period from 1 January 2017 to 30 June 2017. Details of the Tenancy Renewal Agreement, the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement were set out in the announcement of the Company dated 28 March 2014. The Tenancy Renewal Agreement, the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement expired on 30 June 2017.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
	23 June 2017	Citistore and HREAL	The Group (by HREAL as agent) entered into a renewal offer letter A (the "Renewal Offer Letter A") with Citistore as tenant in respect of the leasing of Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, MHP ("Premises 1") and Bridge area on Level 1, MHP ("Premises 2") for a term of one year commencing from 1 July 2017 to 30 June 2018. The Group (by HREAL as agent) also entered into a renewal offer letter B (the "Renewal Offer Letter B") with Citistore as tenant in respect of the leasing of Shop Nos. 127-161 and corridors and toilets on Level 1, MHP ("Premises 3") for a term of three years commencing from 1 July 2017 to 30 June 2020. The aggregate rentals, management fees, air-conditioning charges, promotional levy and other miscellaneous charges (exclusive of Government rates) under the Renewal Offer Letter A and the Renewal Offer Letter B, subject to annual ceiling of HK$7,500,000 for the period from 1 July 2017 to 31 December 2017. Details of the Renewal Offer Letter A and the Renewal Offer Letter B were set out in the announcement of the Company dated 23 June 2017.
3.	30 October 2015	HREAL	TCS Project Management Agreement between Jet Legend Limited ("JLL"), a wholly-owned subsidiary of the Company and HREAL for the appointment of HREAL as the project manager, for the development of 208 Tung Chau Street, Sham Shui Po, Kowloon, Hong Kong (the "TCS Property") for a term of three years commencing from 2 November 2015 to 31 December 2018. The aggregate remuneration for the services to be provided by HREAL shall be subject to a total annual ceiling of HK$1,600,000 for the year ended 31 December 2017. Details of the TCS Project Management Agreement were set out in the announcement of the Company dated 30 October 2015.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
4.	30 October 2015	Heng Tat Construction Company Limited ("Heng Tat"), a wholly-owned subsidiary of HLD	TCS Prime Cost Contract between JLL and Heng Tat, for the appointment of Heng Tat as the main contractor for the development of the TCS Property for a term of three years commencing from 2 November 2015 to 31 December 2018. The aggregate of the prime costs of all works carried out by Heng Tat or by any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total annual ceiling of HK$ 16,740,000 for the year ended 31 December 2017. Details of the TCS Prime Cost Contract were set out in the announcement of the Company dated 30 October 2015.
5.	30 October 2015	HPAL	TCS Sales Management Agreement between JLL and HPAL for the appointment of HPAL as the sales manager for the development of the TCS Property for a term of three years commencing from the date of the first initial sale of any residential units of the Proposed TCS Development to 31 December 2018. The sales fee of half of one per cent. (0.5%) of the gross proceeds of sale of the residential units and other portions of the TCS Property shall be subject to the ceiling of HK$600,000 for the year ended 31 December 2017. Details of the TCS Sales Management Agreement were set out in the announcement of the Company dated 30 October 2015.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
6.	30 October 2015	HPAL and Miramar Hotel and Investment Company, Limited ("Miramar")	Letter Agreement between JLL and HPAL to lease portions of Shops 501-502 and 503A-C, 5th Floor, Mira Place One (formerly known as Miramar Shopping Centre), 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong (the "Premises 4") for use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 November 2015 to the completion date (the earlier of 4 January 2017 and the date on which the last residential unit in the TCS Property to be sold is sold). JLL was the principal and HPAL acted as agent of JLL under the Miramar/HPAL Agreement, as disclosed in the announcement of Miramar dated 10 July 2014. The aggregate rents, fees and other charges (exclusive of Government rates) to HPAL shall be subject to a total annual ceiling of HK$3,600,000 for the period from 1 January 2016 to 4 January 2017. Details of the Letter Agreement were set out in the announcement of the Company dated 30 October 2015. The Letter Agreement expired on 4 January 2017.
	6 January 2017	HPAL and Miramar	Second Letter Agreement between JLL and HPAL to lease the Premises 4 for the continuation of use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 January 2017 to the completion date (the earlier of 4 May 2017 and the date on which the last residential unit in the TCS Property to be sold is sold). JLL was the principal and HPAL acted as agent of JLL under the Miramar/HPAL Agreement, as disclosed in the announcement of Miramar dated 10 July 2014. The aggregate rents, fees and other charges (exclusive of Government rates) to HPAL under the Second Letter Agreement for the period from 5 January 2017 to 4 May 2017 shall be a maximum of HK$1,700,000. Details of the Second Letter Agreement were set out in the announcement of the Company dated 6 January 2017. The Second Letter Agreement expired on 4 May 2017.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

Details of the above continuing connected transactions are set out in note 30 to the financial statements.

The Independent Non-executive Directors of the Company have reviewed and confirmed that the above continuing connected transactions for the year ended 31 December 2017 have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions 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 the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 22 to 27 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

The auditor of the Company have also confirmed to the Board in writing that the above continuing connected transactions for the year ended 31 December 2017 (i) have received the approval of the Board of Directors or Connected Transaction Committee which was set up by the Board of Directors of the Company; (ii) have been entered into in accordance with the relevant agreements governing the transactions; and (iii) have not exceeded the cap disclosed in the previous announcements.

CORPORATE GOVERNANCE

The Company is committed to maintaining the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 28 to 40 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2017 and discussed with internal audit department and independent external auditor in respect of matters on auditing, internal control and financial reports of the Group.

PUBLIC FLOAT

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

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the 2018 annual general meeting.

On behalf of the Board

Dr. Lam Ko Yin, Colin
Chairman

Li Ning
Director

Hong Kong, 20 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Board of Directors (the "Board") is devoted to the ongoing enhancement of the corporate governance practices of the Company as the Board believes that good corporate governance practices are fundamental to the effective operation of a company and enhancement of shareholders' value as a whole.

In the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2017. The Board shall review and update its corporate governance practices from time to time to ensure its continuous compliance with the Code.

BOARD OF DIRECTORS

Responsibility and delegation

The Board is primarily responsible for considering and deciding on matters covering overall Group strategies, business and investment plans, major acquisitions and disposals, annual financial budgets, approving annual reports and interim reports, announcement of annual results and interim results, dividend policy and payments, appointment of directors, oversight of management and oversee the effectiveness of the risk management and internal control systems of the Group including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and internal audit function, and their respective training programmes and budget, approval of major capital transactions and other significant operational and financial matters.

The functions reserved to the Board are basically provided by the articles of association of the Company (the "Articles of Association") and the Board will from time to time delegate the functions to the management whenever required. The management of the Company is responsible for the day-to-day operations of the Company and implementation of strategies adopted by the Board.

The Board focuses its attention on matters affecting the Company's long term objectives and plans for achieving these objectives, the Group's overall business and commercial strategy as well as overall policies and guidelines.

The Board has established board committees with written terms of references to assist in the efficient implementation of its functions, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Specific responsibilities have been delegated to the above Board Committees.

Board meetings are held regularly four times a year and additional meetings are held as and when required to discuss significant matters or important issues. In order to meet tight time constraints and make timely decision for the Company's policies and businesses, Board approvals have also been sought by circulation of resolutions in writing from time to time in accordance with the Articles of Association. Directors' attendance by electronic means including telephone conferencing is counted as attendance at a physical board meeting. The Company Secretary shall attend all regular board meetings and additional meetings to advise on statutory compliance and corporate governance, when necessary.

During the year, the Chairman, even though he is an Executive Director, held a meeting with all Non-executive Directors (including all Independent Non-executive Directors) without the presence of another Executive Director.

All Directors have been provided, on a monthly basis, with the Group's management information updates, giving a balanced and understandable assessment of the Group's performance, position, and budget, to keep them abreast of the Group's affairs and facilitate them to discharge their duties under the relevant requirements of the Listing Rules.

BOARD COMPOSITION

The Board comprises ten Directors including two Executive Directors, four Non-executive Directors and four Independent Non-executive Directors. The names of the Directors of the Company are as follows:

Executive Directors

Dr. Lam Ko Yin, Colin *(Chairman of the Board)*
Mr. Li Ning

Non-executive Directors

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee
Mr. Wong Man Kong, Peter

Independent Non-executive Directors

Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

The biographical details of the Directors are set out in the section headed "Directors' and Senior Management's Profile" on pages 3 to 7 of this Annual Report. A list of the Directors and their role and function is available on the websites of the Company (www.hkf.com) and Hong Kong Exchanges and Clearing Limited ("HKEx") (www.hkexnews.hk) respectively.

Dr. Lee Shau Kee and Mr. Li Ning are deemed as having substantial interests in the total number of issued shares of the Company under Part XV of the Securities and Futures Ordinance ("SFO"). Dr. Lee is the father-in-law of Mr. Li Ning. Dr. Lee Shau Kee, Dr. Lam Ko Yin, Colin and Mr. Lau Yum Chuen, Eddie are executive directors of Henderson Land Development Company Limited ("HLD"). Mr. Leung Hay Man and Mr. Wu King Cheong are independent non-executive directors of HLD. HLD has discloseable interests under the provisions of the SFO in the Company.

Save as disclosed above, there is no financial, business, family or other material or relevant relationship among the Directors.

The Board adopted the Board Diversity Policy setting out the approach to achieve diversity on the Board in August 2013. The Board noted that the measurable objectives have been set for implementing the policy. In addition, the Board is satisfied that its composition is appropriate being considered the skills, experience and attributes of the Directors. The Nomination Committee of the Company will monitor the implementation of the Board Diversity Policy and review the policy as appropriate.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nomination Committee of the Company is responsible to review the structure, size, diversity and composition of the Board, identify suitable candidates to the Board, and to make recommendations on any matters in relation to the appointment or re-appointment of members of the Board. Appointment of new Directors is reserved for the Board's approval.

The Nomination Committee ensures that the Board comprises members with mixed skills and experience with appropriate knowledge necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. The Nomination Committee takes into account that person's skills, qualifications and expected contributions to the Company before making any recommendations to the Board in relation to the appointment or re-appointment of members of the Board.

Mr. Ho Hau Chong, Norman, who was appointed as Independent Non-executive Director of the Company since March 1995, had served as Independent Non-executive Director for more than nine years. Mr. Ho is also the Chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee of the Company. Despite Mr. Ho has other directorships as mentioned in the section of "Confirmation of Independence" on page 31 of this Corporate Governance Report, he does not have any management role in the Company. The Nomination Committee considered that Mr. Ho has continuously contributed to the Company and the Board with his relevant experience and knowledge throughout his years of service.

APPOINTMENT AND RE-ELECTION OF DIRECTORS (Continued)

Mr. Wu King Cheong, who was appointed as Independent Non-executive Director of the Company since January 2005, had served as Independent Non-executive Director for more than nine years. Mr. Wu is also the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Taking into consideration of his independent scope of works in the past years, the Board considers Mr. Wu to be independent under the Listing Rules despite the fact that he had served the Company for more than nine years and served as common directors of HLD, Henderson Investment Limited ("HIL") and Miramar Hotel and Investment Company, Limited ("Miramar"), all of which are listed public companies. Also, Mr. Wu has not engaged in any executive management of the Group.

Besides, during their tenure of office, Mr. Ho and Mr. Wu have been providing objective and independent views to the Company over the years, and they remain committed to their independent roles. Accordingly, Mr. Ho and Mr. Wu will retire by rotation in accordance with the Articles of Association at the annual general meeting to be held on Monday, 28 May 2018. Their further appointment should be subject to two separate resolutions to be approved by shareholders.

The appointment of independent non-executive directors adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

According to the Articles of Association, a newly appointed Director shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting (in case of an addition to the Board) and shall then be eligible for re-election at that general meeting.

In accordance with the Articles of Association, no Director shall hold office for a continuous period in excess of three years, or past the third annual general meeting, following the Director's appointment or re-election, whichever is the longer, without submitting for re-election at an annual general meeting of the shareholders of the Company.

In addition, at each annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation at least once every three years.

The procedures for shareholders of the Company to propose a person for election as a Director are available and accessible on the website of the Company (www.hkf.com) and to the section of "Procedures for Shareholders to propose a person for election as a director" on page 40 of this Corporate Governance Report.

CHAIRMAN AND GROUP GENERAL MANAGER

The roles of the Chairman and the Group General Manager of the Company are taken by two separate individuals who are not related to each other. The separation of the roles of the Chairman and the Group General Manager enables a clear division of responsibilities between the Chairman of the Board and the Group General Manager and also provides checks and balances effect.

The role of the Chairman of the Board is taken by Dr. Lam Ko Yin, Colin while the role of the Group General Manager (whose status is equivalent to chief executive officer for the purpose of the Code but not otherwise) is taken by Ir. Dr. Ho Chi Shing, David. The key function of the Chairman is the management of the Board whereas the key function of the Group General Manager is the day-to-day management of the Company's business.

NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1) and 3.10A of the Listing Rules of having at least three independent non-executive directors, representing one-third of the Board. One of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

All Non-executive Directors (including Independent Non-executive Directors) of the Company have been appointed for a specific term to 31 December 2019. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the Articles of Association.

CONFIRMATION OF INDEPENDENCE

The Nomination Committee and the Board noted that Mr. Ho Hau Chong, Norman is an executive director of Miramar and a director of Wealth Team Development Limited ("Wealth Team"), which is an indirect subsidiary of HLD. Mr. Ho also has an indirect beneficial interests of 9.9% in all issued share capital of Wealth Team, but is not involved in the management and operation of Wealth Team. Miramar, Wealth Team and HLD are connected persons of the Company under the Listing Rules.

In view of the fact that Mr. Ho does not have any material interests in any principal business activity of and is not involved in any material business dealings with the Company, or any of its subsidiaries or with any connected persons of the Company, and that both the management and the operations of the Miramar Group and the Group are totally independent from each other, the Board in good faith considers that the independence of Mr. Ho as an Independent Non-executive Director of the Company is not in any way affected by his directorships in both Miramar and Wealth Team. Save as aforesaid, Mr. Ho has complied with other conditions set out in Rule 3.13 of the Listing Rules.

Mr. Leung Hay Man had certain services rendered in the past falling within the independence guideline in Rule 3.13(3) of the Listing Rules, and had/has previous/existing directorships falling within the independence guideline in Rule 3.13(7) of the Listing Rules, among the factors affecting independence.

Mr. Leung owns a company (the "Consultancy Co") which used to provide general consultancy services to the Company for certain years. The Consultancy Co has stopped providing services to the Company and no service fee has been paid by the Company to it as from June 2012. Given that the consultancy fee paid by the Company was insignificant and immaterial, the Company considers that such services rendered in the past have no bearing on his independence.

Having regard that the previous non-executive directorships of Mr. Leung involved no active management role in the Company, HLD and HIL and that Mr. Leung has been re-designated as an independent non-executive director of each of HLD and HIL from August 2012, the Company considers that the previous non-executive roles of Mr. Leung in the Company, HLD and HIL have no bearing on his independence as an Independent Non-executive Director of the Company. Save as aforesaid, Mr. Leung has complied with other conditions set out in Rule 3.13 of the Listing Rules.

The Board has received an annual confirmation of independence from each of Mr. Ho Hau Chong, Norman, Mr. Leung Hay Man, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong, Independent Non-executive Directors of the Company, pursuant to Rule 3.13 of the Listing Rules.

All Independent Non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules. The Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment to the Board, each Director receives comprehensive induction covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior management to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (the "Companies Ordinance") and corporate governance practices organised by professional bodies and institutions in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written reading materials to develop and refresh their professional skills; the Group also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the year, the Group arranged for the Directors and senior management to attend two in-house workshops with distinguished speakers from the professional fields on topics of legal, commercial and risk management.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT (Continued)

The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

According to the records maintained by the Company, the Directors received the following training(s) in compliance with the requirement of the Code regarding the training records receiving on continuous professional development for the year ended 31 December 2017:

Board of Directors	Type of trainings relevant to corporate governance, regulatory updates and/or accounting, finance, risk management or tax
Executive Directors	
Dr. Lam Ko Yin, Colin *(Chairman of the Board)*	A, B
Mr. Li Ning	A, B
Non-executive Directors	
Mr. Au Siu Kee, Alexander	A, B
Mr. Lau Yum Chuen, Eddie	A, B
Dr. Lee Shau Kee	A, B
Mr. Wong Man Kong, Peter	A, B
Independent Non-executive Directors	
Mr. Ho Hau Chong, Norman	A, B
Mr. Leung Hay Man	B
Ms. Wong Yu Pok, Marina	A, B
Mr. Wu King Cheong	A, B

A: attending seminars and/or presentations
B: reading materials

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

BOARD COMMITTEES

The Board has established three board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee particular aspects of the Company's affairs. Each committee has been delegated with certain functions of the Board.

Audit Committee

The Audit Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Audit Committee comprises four Independent Non-executive Directors, namely, Mr. Ho Hau Chong, Norman (Chairman of the Audit Committee), Mr. Leung Hay Man, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong.

The terms of reference of the Audit Committee are available on the websites of the Company (www.hkf.com) and HKEx (www.hkexnews.hk) respectively.

The major duties and responsibilities of the Audit Committee are to review of the annual and interim results and oversight of the Company's financial reporting principles and practices and discusses with the external auditor on financial reporting and compliance; to recommend the appointment, re-appointment or removal of the external auditor, to determine their independence and objectivity as well as to review the scope of audit and the reporting obligation of the external auditor. The Audit Committee oversees the effectiveness of risk management and internal control systems of the Group including the adequacy of resources, staff qualifications, experience, programmes and budget of the accounting and reporting function and internal audit function of the Group. The external auditor was invited to attend the meetings of Audit Committee to present their reports and reviews for the interim and annual results of the Group. The Audit Committee has been delegated the corporate governance functions by the Board to review and monitor the corporate compliance within the Group.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year, two audit committee meetings were held. During the meetings, the Audit Committee members reviewed the annual results and the financial statements for the year ended 31 December 2016 with recommendation to the Board for approval, the Annual Internal Audit Report, the continuous professional development training records of Directors and senior management, Continuing Connected Transactions, a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions and internal audit function, the interim results for the six months ended 30 June 2017, the Interim Internal Audit Report, to approve the terms of engagement of the external auditor, the works of the Company's internal audit department, assessed the effectiveness of the Group's systems of risk management and internal controls.

The Audit Committee performed the corporate governance duties by reviewing the compliance with the Code and disclosure requirements as set out in this Corporate Governance Report.

As a recommended best practice under the Code, the Company has adopted a whistleblowing policy. The policy aims at encouraging and enabling employees of the Group at all levels and others to report violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group.

Remuneration Committee

The Remuneration Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Remuneration Committee comprises four Independent Non-executive Directors, namely, Mr. Wu King Cheong (Chairman of the Remuneration Committee), Mr. Ho Hau Chong, Norman, Mr. Leung Hay Man and Ms. Wong Yu Pok, Marina and two Executive Directors namely Dr. Lam Ko Yin, Colin and Mr. Li Ning.

The terms of reference of the Remuneration Committee are available on the websites of the Company (www.hkf.com) and HKEx (www.hkexnews.hk) respectively.

The Remuneration Committee has adopted the operation model where it performs to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's emolument and on the establishment of a formal and transparent procedure for developing emolument policy.

The Remuneration Committee is responsible for reviewing the policy and structure for the emolument of all Directors and senior management of the Company, assessing performance of executive directors and establishment of a formal and transparent procedure for developing policy on such emolument.

The emolument of the Directors and senior management is determined by reference to the skills, knowledge and the tasks assigned and also to the individual performance and the overall profitability, corporate goals and objectives of the Company as a whole. In determining the emolument package, the Committee will also obtain relevant information from external source and consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, etc.

During the year, one remuneration committee meeting was held. During the meeting, the Remuneration Committee members reviewed and determined the emolument package of the staff including the senior management of the Company and made recommendations on the fees of all the Directors of the Company for the year ended 31 December 2017.

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Nomination Committee comprises two Executive Directors namely Dr. Lam Ko Yin, Colin (Chairman of the Nomination Committee) and Mr. Li Ning and three Independent Non-executive Directors, namely, Mr. Ho Hau Chong, Norman, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong.

The terms of reference of the Nomination Committee are available on the websites of the Company (www.hkf.com) and the HKEx (www.hkexnews.hk) respectively.

The Nomination Committee is responsible for reviewing the structure, size, diversity and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy, with due regards to the Board Diversity Policy. It also identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships and to assess the independence of independent non-executive directors and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. The Nomination Committee shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration of his/her time devoted to the position.

During the year, there is no change in the composition of the Board and one nomination committee meeting was held. During the meeting, the Nomination Committee members reviewed the structure, size, diversity and composition (including the skills, knowledge, experience and length of service) of the Board, assessed the independence of Independent Non-executive Directors and reviewed the Independent Non-executive Directors' annual confirmations on their independence; reviewed the time required for a Director to perform his responsibilities; made recommendations to the Board for re-election of the retiring Directors at the annual general meeting of the Company held on 25 May 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry, the Company confirmed that all Directors of the Company have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2017.

The Company has also adopted the written guidelines on no less exacting terms than the Model Code for relevant employees (including employees of the Company or Directors or employees of its subsidiaries who, because of such office or employment, is likely to be in possession of unpublished inside information in relation to the Company or its securities), in respect of their dealings in the securities of the Company.

POLICY AND PROCEDURES ON DISCLOSURE OF INSIDE INFORMATION

The Board has adopted the Policy and Procedures on Disclosure of Inside Information which contains the guidelines to the directors, officers and relevant employees of the Company to ensure that the inside information of the Company is to be disseminated to public in an equal and timely manner in accordance with the applicable laws and regulations. The Policy and Procedures on Disclosure of Inside Information is available on the website of the Company (www.hkf.com).

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the year, the Company Secretary has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of the Company Secretary is set out in the section headed "Directors' and Senior Management's Profile" on page 8 of this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial period to give a true and fair view of the financial position and financial performance of the Group. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable, and have prepared the consolidated financial statements on a going concern basis.

The statement of the Auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 73 to 78 of this Annual Report.

Auditor's Remuneration

Apart from carrying out the annual audit, KPMG, the Auditor of the Company also carried out the review on the interim report of the Company. For the year ended 31 December 2017, the fee of the annual audit amounted to HK$1,737,000 whereas the fee for the interim review amounted to HK$335,000. Save for the interim review, KPMG did not provide any substantial non-audit services to the Company.

Risk Management and Internal Controls

The Board acknowledges its responsibility for overseeing the risk management and internal control systems of the Group and reviewing the effectiveness at least annually through Audit Committee. 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 Internal Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audits on the areas of financial, operational, and compliance controls and risk management functions.

The Group has established an organisational structure with defined levels of responsibility and reporting procedures. The Audit Committee supports the Board in design, implementation and monitoring of the risk management and internal control systems. The operating units of the Group are responsible for the identification, assessment and mitigation of risks at business unit level and across functional areas. The Internal Risk Management Team, composed of nominated department heads and executives, facilitates the implementation of the risk management framework. The Internal Audit Department assists 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.

The process of risk management involves:

- understanding of organisational objectives;
- identifying the risk associated with achieving organisational objectives and assessing the likelihood and potential impact of particular risks;
- developing programmes to address the identified risks; and
- ongoing monitoring and evaluating the risks, internal control and the arrangements in place to address them.

The risk management of the Group combines a top-down strategic view with a complementary bottom-up operational process.

The Board, by the top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. The Audit Committee supports the Board to review all significant risks in order to ensure that the activities of the business remain within agreed risk appetite tolerances.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

The operating units of the Group are responsible for identifying their own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The setting of business objectives and annual budgeting is one of their key control activities, which shall be refined to take into consideration risk factors. The operating units of the Group consult the Group General Manager on setting the business objectives which are pursuant to the Board's strategic objectives and are consistent with its risk appetite. The process involves the maintenance of risk assessment reports setting out particulars of material risks together with the control strategies as reported by the operating units of the Group. This bottom-up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring the significant risks to be considered by the Board in determining the risk appetite.

The Internal Audit Department collects the risk assessment reports from the operating units of the Group and then compiles a risk register for review at the meeting of Internal Risk Management Team which is held at least 4 times a year (2 meetings are held before the holding of the Board Meeting to review the interim and annual results of the Group). The Internal Risk Management Team coordinates risk management activities and assesses the effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failings or weakness in internal control that have been reported.

The Internal Audit Department adopted a risk-based approach which included all significant risks in each year's annual audit plan and performed audits to evaluate the proper functioning of the risk management and internal control systems for the financial year ended 31 December 2017. It is intended to carry out this evaluation process on an ongoing basis. Key audit findings and recommendations have been shared with the Internal Risk Management Team. The Audit Committee, after reviewing and considering the risk management findings submitted by the Internal Audit Department, then reported to the Board of the Company and confirmed to the Board that the risk management and internal control systems are effective and adequate.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

The diagram below summarizes the complementary top-down and bottom-up aspects of the integrated approach of the Group to risk management.

"Top-down" approach
Oversight, identification, assessment and mitigation of risk at corporate level

The Board

- Has overall responsibility for the Group's risk management and internal control systems
- Sets strategic objectives
- Reviews the effectiveness of the Group's risk management and internal control systems
- Monitors the nature and extent of risk exposure for the Group's significant risks
- Provides direction on the importance of risk management and risk management culture

Internal Risk Management Team

- Supports the Audit Committee in designing, implementing, and monitoring the Group's risk management and internal control systems
- Supports the Audit Committee in assessing the Group's risks and mitigating measures Company-wide

Audit Committee

- Supports the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal control systems

Internal Audit

- Supports the Audit Committee in reviewing the effectiveness of the Group's risk management and internal control systems
- Considers risk assessment results, especially for all significant risks in annual audit planning
- Designs audit program with reference to the risk assessment results
- Report key audit findings and recommendations to the Audit Committee and Internal Risk Management Team

Operational Level

- Sets business objectives
- Risk identification, assessment and mitigation performed across the business
- Risk management process and internal controls measures practised across business operations and functional areas.

"Bottom-up" approach
Identification, assessment and mitigation of risk at business unit level and across functional areas

Certain significant risks such as business risk, financial risk, regulatory and compliance risk and operational risk have been identified during the year through the process of risk identification and assessment. Relevant control strategies and mitigation on significant risks have been reported to the Audit Committee. 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.

The Audit Committee has established and oversees a whistleblowing policy and set comprehensive procedures whereby employees can report any actual or suspected occurrence of improper conduct involving the Company, and for matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Audit Committee has designated the Internal Audit Manager 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.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

Inside Information

With regard to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules.
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorized use of confidential or inside information.
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

ATTENDANCE RECORD OF DIRECTORS AND BOARD COMMITTEE MEMBERS

Details of the attendance of each director at the Board Meetings ("BM"), Audit Committee Meetings ("ACM"), Remuneration Committee Meeting ("RCM") and Nomination Committee Meetings ("NCM") during the year ended 31 December 2017 and Annual General Meeting held on 25 May 2017 ("2017 AGM") are set out in the following table:

	Number of Meetings attended/held				
Board of Directors	**BM**	**ACM**	**RCM**	**NCM**	**2017 AGM**
Executive Directors					
Dr. Lam Ko Yin, Colin *(Note 1)*	4/4	N/A	1/1	1/1	1/1
Mr. Li Ning *(Note 2)*	3/4	N/A	0/1	1/1	1/1
Non-executive Directors					
Mr. Au Siu Kee, Alexander	4/4	N/A	N/A	N/A	1/1
Mr. Lau Yum Chuen, Eddie	4/4	N/A	N/A	N/A	0/1
Dr. Lee Shau Kee	0/4	N/A	N/A	N/A	0/1
Mr. Wong Man Kong, Peter	4/4	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Ho Hau Chong, Norman *(Note 3)*	4/4	2/2	1/1	1/1	1/1
Mr. Leung Hay Man *(Note 4)*	2/4	1/2	0/1	N/A	0/1
Ms. Wong Yu Pok, Marina *(Note 5)*	4/4	2/2	1/1	1/1	1/1
Mr. Wu King Cheong *(Note 6)*	4/4	2/2	1/1	1/1	1/1

Notes:

1. *Chairman of the Board, Member of the Remuneration Committee and Chairman of the Nomination Committee*
2. *Member of the Remuneration Committee and the Nomination Committee*
3. *Chairman of the Audit Committee, Member of the Remuneration Committee and the Nomination Committee*
4. *Member of the Audit Committee and the Remuneration Committee*
5. *Member of the Audit Committee, the Remuneration Committee and the Nomination Committee*
6. *Member of the Audit Committee, Chairman of the Remuneration Committee and Member of the Nomination Committee*

COMMUNICATION WITH SHAREHOLDERS

The Company continues to pursue investor relations and communications with shareholders.

The Board has adopted a shareholders communication policy to set out the Company's procedures in providing the shareholders with prompt and equal access to information about the Company, in order to enable the shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

The Company has established an effective communication system. The Company also maintains a website (www.hkf.com) through which the Company's updated financial information, announcements, circulars, notices of meetings, press releases and contact details can be accessed by the shareholders and investors. The Board believes that the Company's website provides an alternative means for the investing public to obtain information of the Company in a convenient and timely manner.

The annual general meeting also provides an important opportunity for constructive communication between the Board and the shareholders. The Chairman and the chairmen of the audit committee, remuneration committee and nomination committee as well as the Company's external auditor maintained an on-going dialogue with the shareholders and answered questions raised by the shareholders throughout the annual general meeting.

SHAREHOLDERS' RIGHTS

Set out below are procedures by which shareholders may: (1) request to call a general meeting; (2) put forward enquiries to the Board; and (3) request to circulate a resolution for an annual general meeting. These procedures are generally governed by the provisions of the Articles of Association and applicable laws, rules and regulations, which prevail over what is stated in this section in case of inconsistencies.

1. Procedures by which shareholders may request to call a general meeting

Pursuant to the Articles of Association and Section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of the Company can make a request to call a general meeting.

The request: (a) must state the general nature of the business to be dealt with at the general meeting; (b) may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting; (c) may consist of several documents in like form; (d) may be sent to the Company Secretary in hard copy form to the registered office of the Company at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong or in electronic form via e-mail at hkferry@hkf.com; and (e) must be authenticated by the shareholders making it.

Pursuant to Section 567 of the Companies Ordinance, the Directors must call a general meeting within 21 days after the date on which it becomes subject to the requirement and a general meeting so called must be held on a date not more than 28 days after the date of the notice convening a general meeting. If the Directors do not do so, the shareholders, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance, but the meeting must be called for a date not more than 3 months after the date on which the Directors become subject to the requirement to call a general meeting. Any reasonable expenses incurred by the shareholders by reason of the Board's failure to duly call the meeting shall be reimbursed to the shareholders by the Company.

SHAREHOLDERS' RIGHTS (Continued)

2. Procedures for putting forward enquiries to the Board

Shareholders may put forward enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

The Company Secretary
Hong Kong Ferry (Holdings) Company Limited
98 Tam Kon Shan Road
TYTL 102
Ngau Kok Wan
North Tsing Yi
New Territories
Hong Kong

E-Mail	:	hkferry@hkf.com
Telephone	:	(852) 2394 4294
Facsimile	:	(852) 2786 9001

3. Procedures to circulate a resolution for an annual general meeting

Pursuant to Section 615 of the Companies Ordinance, shareholders can make a request to circulate a proposed resolution that may properly be moved and is intended to be moved at an annual general meeting, accompanied by a statement of not more than 1,000 words with respect to the matter mentioned in the proposed resolution. The request must be made by: (i) shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote on the resolution at the annual general meeting to which the request relates; or (ii) at least 50 shareholders who have a relevant right to vote on the resolution at the annual general meeting to which the request relates.

The request: (a) may be sent to the Company Secretary in hard copy form to the registered office of the Company at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong or in electronic form via e-mail at hkferry@hkf.com; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the shareholders making it; and (d) must be received by the Company not later than 6 weeks before the annual general meeting to which the request relates; or if later, not later than the time at which notice is given of that annual general meeting.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

According to the Articles of Association, a notice signed by a shareholder of his/her intention to propose a person for election and also a notice signed by the person (the "Candidate") to be proposed of his/her willingness to be elected shall be lodged at the registered office of the Company no earlier than the day after the despatch of the notice of the general meeting appointed for such election and no later than 7 days prior to the date of such general meeting.

The Candidate is required to provide his/her biographical details set out under Rule 13.51(2) of the Listing Rules.

The Nomination Committee, where applicable, will review and make recommendations to the Board on the selection of any individuals nominated for directorships in accordance with the terms of reference of the Nomination Committee.

The Company will, where appropriate, issue a supplementary circular which shall include the name of the Candidate together with his/her biographical details set out in Rule 13.51(2) of the Listing Rules, to the shareholders for them to make decision on their election at a general meeting.

INVESTOR RELATIONS

During the year ended 31 December 2017, there has not been any change in the Company's constitutional documents.

MESSAGE FROM THE CHAIRMAN

It is my pleasure to present this Environmental, Social and Governance ("ESG") Report for Hong Kong Ferry (Holdings) Company Limited and its subsidiaries (the "Company" or "Hong Kong Ferry Group"), which highlights the Company's sustainability achievements in 2017 as we make strides in our sustainability and Corporate Social Responsibility ("CSR") journey.

Founded in 1923, with a strong belief in a people-oriented culture, the Company has built a solid foundation in its property development and investment, and ferry and shipyard operations in Hong Kong. Our "people-first" principle guides the way we conduct business, from providing reliable and safe transportation services for our customers, to designing and developing properties which fulfil the needs of residents.

Witnessing the transformations in Hong Kong over time, the Company has always upheld its core value of "Loving Hong Kong and the Harbour". This process of extending care from the Company and our shareholders to our employees and their families, and to the wider society and the environment we all share has been the driving force behind our initiatives.

Rooted in our long-standing value of caring for our staff and customers, our initiatives connect the Company's past and future in times of change. A shared vision has been established within Hong Kong Ferry Group, with our management steering ESG strategy and our staff initiating and implementing relevant measures.

I believe our approach will bring sustainability to Hong Kong Ferry Group, enabling us to embrace future challenges and seize business opportunities. Going ahead, we will continue to expand our presence through continuous caring, innovation and enrichment, and work closely with our stakeholders with the objective of preserving the environment, to create a sustainable society in Hong Kong.

Dr. Lam Ko Yin, Colin
Chairman

1. ABOUT THIS ESG REPORT

a. Reporting Standard and Scope

This ESG report has been prepared in accordance with the requirements of the ESG Reporting Guide, Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by Hong Kong Exchanges and Clearing Limited ("HKEx"). It details Hong Kong Ferry Group's performance in four aspects – environment, human capital, community and value chain management for the period from 1 January 2017 to 31 December 2017 (the "reporting year"). The scope of the ESG Report covers property development and investment, ferry and shipyard operations, and related services. The following companies are included in this ESG Report considering their substantive representation of the operations.

Business Units	Name of the Companies
Principal Office	Hong Kong Ferry (Holdings) Company Limited
Property Development and Investment	Jet Legend Limited Well Dynamic Limited World Light Limited Lenfield Limited HKF Property Investment Limited
Shipyard Operation	The Hong Kong Shipyard Limited
Dangerous Goods Vehicular Ferry Services	The Hongkong and Yaumati Ferry Company Limited
Harbour Cruise – Bauhinia	Galaxy Hotel Management Company Limited

To enhance the navigability of the report, a HKEx ESG content index is available on pages 70 to 72.

b. Stakeholder Engagement

In preparation of this ESG Report, the Company appointed an independent consultant to develop and implement a comprehensive stakeholder engagement exercise with the aim of understanding stakeholders' views on our ESG initiatives. This year, we invited several external stakeholders, including clients, suppliers and NGOs, to respond to our online survey. In addition, in-depth interviews and focus group discussions were conducted with our senior management and staff from various operations of Hong Kong Ferry Group. During the two-way engagement exercise, stakeholders expressed their feedback and expectations on Hong Kong Ferry Group's ESG performance which are key to determining our future direction for sustainability.

1. ABOUT THIS ESG REPORT (Continued)

c. Materiality Assessment

While the ESG Reporting Guide articulates a wide spectrum of aspects, they are not all relevant to the operations of Hong Kong Ferry Group. The following three-step materiality assessment was conducted by the independent consultant to determine the material sustainability issues for disclosure.

1

Step 1: Identification
The preliminary step was to identify and review the sustainability disclosures of Hong Kong Ferry Group's local peers. This peer benchmarking exercise gave an indication of the most appropriate ESG issues for Hong Kong Ferry Group.

External and internal stakeholders were also invited to complete surveys to rank the importance of ESG topics to themselves and to the Company, respectively.

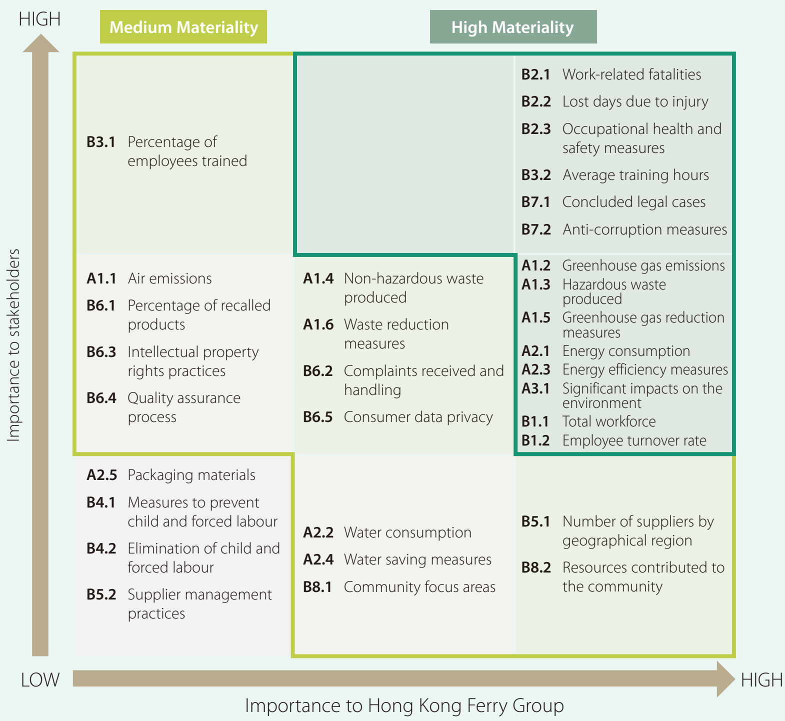
2

Step 2: Prioritisation
Results from the peer benchmarking exercise, stakeholder survey and engagement sessions were consolidated to identify a list of material ESG issues for Hong Kong Ferry Group.

3

Step 3: Validation of the Material Issues
The Company's senior management convened a meeting with the independent consultant to confirm a finalised list of material Key Performance Indicators ("KPIs") for disclosure.

The chart below shows the 32 HKEx KPIs mapped according to their importance to Hong Kong Ferry Group and our stakeholders. The 28 HKEx KPIs which were determined to be of "high" and "medium" materiality are included in this ESG Report.



2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2017

Awards/Certificates	Awarding Bodies/Issuing Organisations
2004-2019 Hong Kong Q-Mark for Harbour Cruise – Bauhinia	The Hong Kong Q-Mark Council and The Federation of Hong Kong Industries
2017 Business Excellence Awards – Best Property Development & Investment Company (Hong Kong)	AI Global Media (UK)
2017 Business Excellence Awards – Leading Experts in Sea Transport Solutions (Hong Kong)	AI Global Media (UK)
Certificate of Appreciation for Supporting the Fire Services Department on a Media Briefing regarding Fire Safety in Open Kitchens	Fire Services Department, HKSAR
BEAM Plus New Buildings (V1.1) Final Bronze rating "(- Metro6)"	Hong Kong Green Building Council
BOCHK Corporate Environmental Leadership Awards (The Hongkong and Yaumati Ferry Company Limited)	The Federation of Hong Kong Industries & Bank of China (Hong Kong) Limited
BOCHK Corporate Environmental Leadership Awards (The Hong Kong Shipyard Limited)	The Federation of Hong Kong Industries & Bank of China (Hong Kong) Limited
Good MPF Employer 2016-17	The Mandatory Provident Fund Schemes Authority
Heart to Heart Company 2005-2018	The Hong Kong Federation of Youth Groups
Corporate Social Responsibility (CSR) Recognition Scheme – "5 years+" Industry Cares 2017	The Federation of Hong Kong Industries
ISO 9001:2008 Quality Management System Certification for Harbour Cruise – Bauhinia	Intertek
ISO 9001:2008 Quality Management System Certification for The Hongkong and Yaumati Ferry Company Limited	Lloyd's Register Quality Assurance Limited
ISO 9001:2008 Quality Management System Certification for The Hong Kong Shipyard Limited	Lloyd's Register Quality Assurance, Inc. and Lloyd's Register Quality Assurance Limited
Logo of "Caring Company 10 Years plus"	The Hong Kong Council of Social Service
Logo of "Happy Company 2017"	The Promoting Happiness Index Foundation & Hong Kong Productivity Council
Logo of "The 8th Hong Kong Outstanding Corporate Citizenship"	Hong Kong Productivity Council & Committee on the Promotion of Civic Education
Manpower Developer 1st Award (2010-18)	The Employees Retraining Board
Partner Employer Award 2017/18	The Hong Kong General Chamber of Small and Medium Business
Hong Kong Green Shop Alliance – Green Code Plaza	Hong Kong Green Building Council & Construction Industry Council
Hong Kong Green Shop Alliance – Metro Harbour Plaza	Hong Kong Green Building Council & Construction Industry Council
Tree Conservation Scheme 2017 Certificate – Metro Harbour Plaza	Hong Kong Environmental Protection Association
Waste Check Commitment Award – Green Code Plaza	Environmental Protection Department, HKSAR & Hong Kong Productivity Council
Waste Check Commitment Award – Metro Harbour Plaza	Environmental Protection Department, HKSAR & Hong Kong Productivity Council

Memberships/Charters	Organisations
Corporate Member	Business Environment Council
Corporate Member	The Institute of Purchasing & Supply of Hong Kong
Green Cross Group Member	Occupational Safety & Health Council, HKSAR

2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2017 (Continued)

2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2017 (Continued)

3. SUSTAINABILITY GOVERNANCE

The ESG working group was established to formulate sustainability strategy for Hong Kong Ferry Group. The working group is comprised of representatives from different business units working together to plan and co-ordinate different ESG initiatives across functions and departments. Regular internal meetings were held in 2017 to discuss ESG topics relevant to Hong Kong Ferry Group and ensure that business practices align with its CSR values. External consultants were also engaged to advise the working group on energy-saving measures and target-setting. The progress of our sustainability programmes and performance were reported to the Board for review.

The Company has established a robust approach to risk management, which combines a top-down strategic view with a complementary bottom-up process. ESG risks such as staff recruitment challenges and compliance with environmental laws and regulations are regularly reviewed, evaluated and monitored in accordance with our risk management process and internal control systems, and are reported to the Board. Please refer to the "Risk Management and Internal Controls" sub-section of "Corporate Governance Report" on pages 35 to 38 of our Annual Report 2017 for more details.

4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP

Hong Kong Ferry Group has long been practising environmental stewardship across our business units. We apply the precautionary principle at every stage of our operations, bearing in mind our responsibility to protect the environment for the present and future generations. We have supported various green initiatives launched by the local government and NGOs, and continually identified opportunities to improve energy efficiency, reduce air emissions, conserve water and recycle materials throughout all operations. During the reporting year, Hong Kong Ferry Group complied with all relevant environmental laws and regulations of Hong Kong.

a. Energy and Climate Change Mitigation

Recognising the global challenge of climate change, we aim to actively contribute to reaching the local carbon reduction target set by the Hong Kong Government[1]. Since 2011, the Energy and Carbon Management Programme has been in place at The Hong Kong Shipyard Limited and The Hongkong and Yaumati Ferry Company Limited. Being the two most energy-intensive business units, we have been working with our external consultants to conduct annual carbon audits, set strategies and implement initiatives to reduce greenhouse gas ("GHG") emissions. Throughout the years, we have applied energy efficient solutions at the Principal Office and subsidiaries' offices, including the installation of solar film on windows, application of solar thermal paint on the roof, replacement of traditional fluorescent tubes in phases after suitability tests and installation of new air compressors. During the reporting year, we have improved the energy performance of the main elevator at the Principal Office, which has been in service for 23 years. With the installation of Variable Voltage Variable Frequency ("VVVF") drive, the electricity consumption of the elevator has been reduced by about 40%.

[1] Reduction of carbon intensity by 65% to 70% by 2030, using 2005 as the baseline.

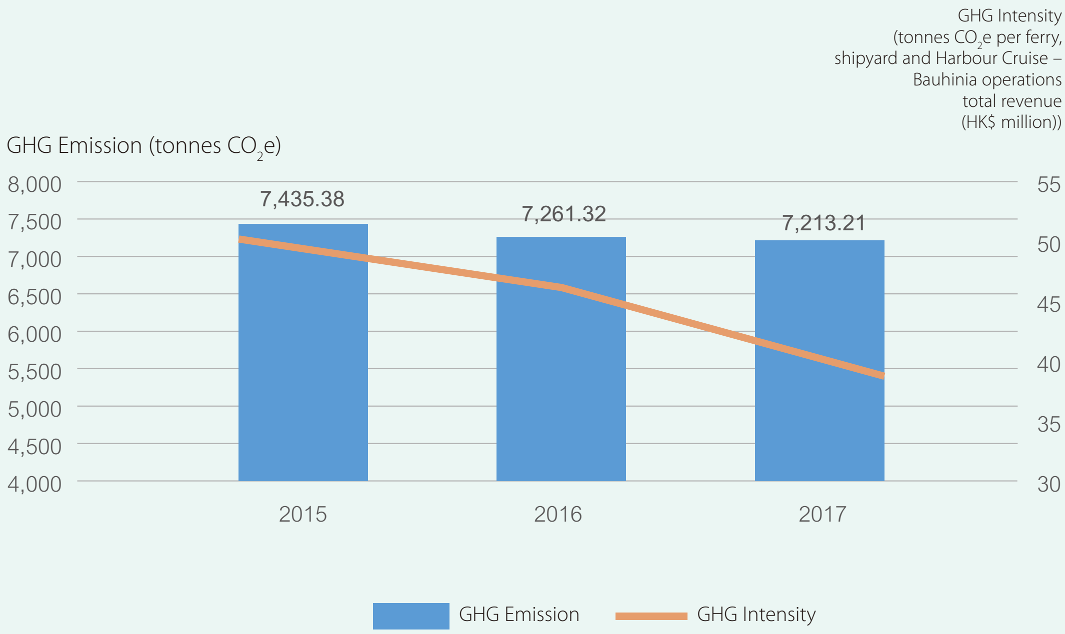
4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

a. Energy and Climate Change Mitigation (Continued)

Our efforts in energy consumption reduction go beyond office operations. We have installed motion sensors at the shipyard and timer switches in our harbour cruise operations, while traditional halogen lamps were replaced with LED high bay lighting at The Hongkong and Yaumati Ferry Company Limited.

Our environmental stewardship values also extend to our property development and investment business division. To incorporate sustainability aspects into our projects, we have actively taken energy performance into consideration throughout the entire project life cycle, and closely adhere to the requirements of the Performance-based Building Energy Code of the Hong Kong Government's Electrical and Mechanical Services Department. To embark on the journey towards greening our property developments, Metro6, our residential project, achieved Final Bronze rating under BEAM Plus New Buildings (V1.1) this year. Going forward, we plan to achieve BEAM plus rating for all of our new projects and improve the ratings over time.

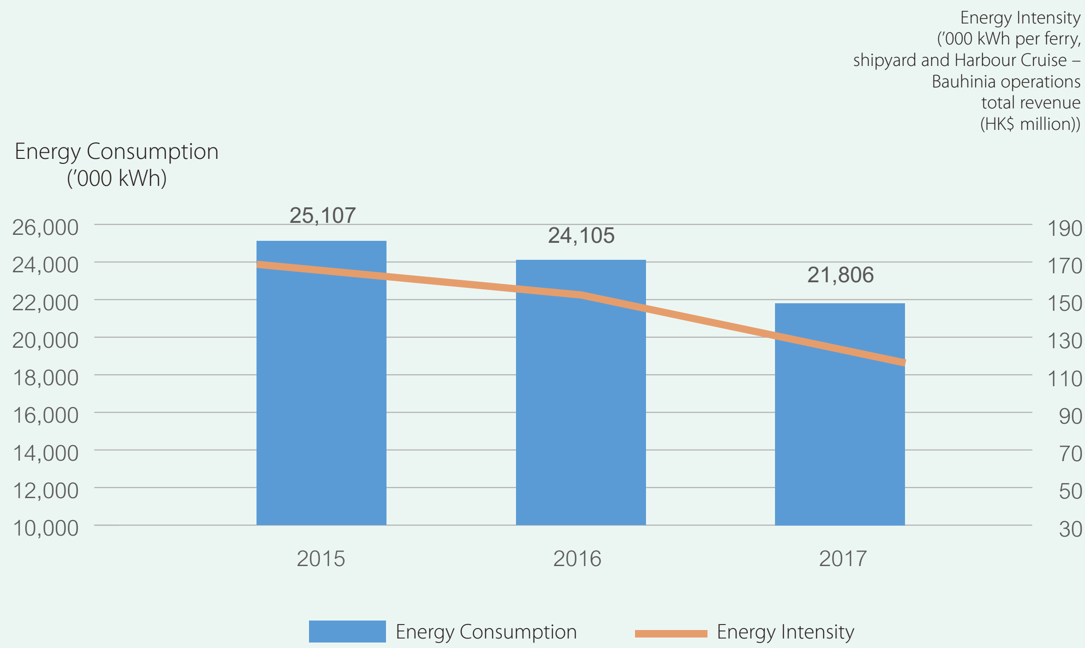
GHG Emission and Intensity



4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

a. Energy and Climate Change Mitigation (Continued)

Energy Consumption and Intensity



During the reporting year, energy intensity and GHG intensity of Hong Kong Ferry Group have been reduced by 16% and 24% from 2016, respectively. Using 2016 as the baseline for energy consumption, we will continue to identify energy-saving opportunities and optimise the integration of energy efficiency initiatives. To harness the renewable energy potential of our city, we are currently conducting a feasibility study for installing solar photovoltaic panels on the rooftop at the Principal Office.

b. Air Quality Improvement

While we strive for high quality provision of sea transport services for dangerous goods vehicles, as well as sightseeing and dining cruise services, we are highly conscious of the air emissions that may arise from our operations. To help safeguard the health and well-being of the community, we have supported the Hong Kong Government to improve local air quality for more than a decade. In 2007, The Hongkong and Yaumati Ferry Company Limited joined the trial of ultra-low sulphur diesel[2] and continued to favour upgrading the quality of local marine light diesel even before the sulphur content was capped at 0.05% in 2014.

Our goal is to provide sea freight services to the local community without impacting the air quality of the harbour. In 2005, The Hongkong and Yaumati Ferry Company Limited first invested in a set of environment-friendly generators for the vessel "Man Lok". With an effort to reduce the emission of major air pollutants, including sulphur dioxide, nitrogen oxides, particulate matter and carbon monoxide, we initiated a replacement programme for all generators and engines on board all our vessels. The voluntary replacement programme was completed in 2016, with a total of 13 generators and 10 engines being replaced with eco-friendly options, helping to maintain the air quality of the harbour enjoyed by our society as a whole. We continued to monitor and improve the performance of the generators and engines in 2017.

During the reporting year, we also switched to a new EURO VI emission standard light goods vehicle to help curb roadside emissions. We will continue to take emission reduction initiatives to promote clean air and improve people's health.

[2] With a maximum sulphur content of 0.005%.

4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

c. Water Conservation

In view of the rising concern over Hong Kong's freshwater supply and demand, we make a conscious effort to reduce water consumption at our operations. We provide all our workmen with proper training on waterjet applications in daily cleaning practices at the shipyard for the purpose of water conservation. Automated water faucets and water-saving aerators were also installed in the restrooms at the Principal Office and Harbour Cruise – Bauhinia operations. The new installations at Harbour Cruise – Bauhinia operations have led to a 15% reduction in water consumption.

Currently, our onsite rainwater harvesting tank at the shipyard has the capacity to collect a total of 30 cubic meters of rainwater annually. We follow the guidelines from "Technical Specifications on Grey Water Reuse and Rainwater Harvesting" published by the Hong Kong Government's Water Supplies Department to reuse the collected rainwater for car washing and green area irrigation. Extending this successful installation, we have decided to install a second rainwater harvester in the shipyard area for greater rainwater utilisation this year.

d. Waste and Resources Management

Recognising the limited resources on this planet, we aspire to close the materials loop by continuously exploring recycling opportunities at our operations. To avoid the disposal of scrap metals generated from shipyard operations, they are sent to designated contractors for classification and separation into steel, aluminium and bronze alloys which are then converted into useful materials. We also appoint contractors to collect zinc alloy, one of the materials commonly found in used sacrificial anodes, for recasting and recycling purposes.

RECYCLED ALUMINIUM
358kg

RECYCLED ZINC ALLOY
800kg

RECYCLED STEEL
6,800kg

RECYCLED BRONZE
370kg

4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

d. Waste and Resources Management (Continued)

Case Study – Upcycling of Waste Oil

Every year, The Hong Kong Shipyard Limited purchases about 11,000 litres of marine industrial diesel oil for the operation of cranes, forklifts and an emergency generator set. Considering that the disposal of waste oil could be hazardous to the environment, we have appointed a licensed chemical collector to gather the waste oil, which is converted into high-quality green lubricants. This year, a total of 11,200 litres of waste diesel oil was recycled.

While making sure our employees could enjoy hot meals at the staff canteen, we are also aware of the used cooking oil being generated every day. In support of the local recycling industry as well as the generation of renewable fuel, we have arranged for a licensed local waste oil recycler to collect and convert the used cooking oil into biodiesel. This year, a total of 666 litres of waste cooking oil has been collected from our staff canteen.

Our conscientious approach to waste and resource management is also reflected at our other subsidiaries. At Harbour Cruise – Bauhinia, we provide alternative menu options with fewer courses for customers to reduce food waste. Committed to protecting the water quality of our harbour, wastewater from the floating restaurants will only be discharged into an onshore sewage system at the ferry pier, preventing about 8,500 metric tonnes of wastewater from being discharged directly into the sea annually.

e. Environmental Awareness

Building internal awareness on environmental protection is essential to driving behavioural change. We aspire to instil a sense of responsibility in our employees and suppliers, enabling them to integrate environmental considerations into daily decision-making at work. For example, an environmental policy which specifies the responsibility of each employee and subcontractor to protect the environment was implemented at The Hong Kong Shipyard Limited.

We have always encouraged environmental behaviour at work. This year, the Company participated in various green activities and initiatives organised by external parties, including Earth Hour by World Wide Fund for Nature, Red Packet Collection Campaign by Greeners Action, and No Air Con Night by Green Sense. Going forward, we will continue the quest to nurture a green company culture in driving the sustainable development of the Company, and of Hong Kong.

5. OUR GREATEST ASSET - HUMAN CAPITAL

People-based governance has always been the Company's management philosophy. We strive to promote the well-being and professional development of our employees, and provide a friendly and enthusiastic environment to enable them to fulfil their potential and strive for achievement.

a. Working Conditions

We endeavour to create an engaging and dedicated workforce – where our employees feel valued, appreciated and motivated at work. In addition to offering competitive remuneration and compensation packages, we also provide attractive fringe benefits which include maternity and paternity leave, as well as medical health insurance coverage for our employees and their family members. In 2017, we launched the "Exclusive Staff Rewards" Campaign to appreciate and recognise the hard work and dedication of our employees. During the reporting year, there were no reported cases of non-compliance with the labour regulations of Hong Kong.

Developing an inclusive and harmonious working environment has the potential of yielding higher productivity. As a company which has the employees' best interests in mind, we strive to promote a positive working atmosphere free from discrimination and harassment, where employees are treated with dignity and respect. Each of our employees is a valuable asset and they should be incentivised to perform and be fairly rewarded. We exercise a fair annual appraisal exercise to evaluate individual performance and identify areas of strength and opportunity for career development. As an equal opportunity employer, we have created a fair and transparent recruitment process for talent acquisition, where candidates are equally assessed based on their knowledge and experience regardless of their gender, race, age, ethnicity or other personal characteristics.

Striking a healthy work-life balance is vital for our employees to give their best performance. We provide a five-day work week for office-based staff, while a flex hours system is provided to our onsite workforce. In addition, we also regularly organise company-wide staff recreational and team bonding activities to enhance cross-department cooperation and understanding, such as staff outings and birthday parties. A relaxing staff leisure corner is also provided to give employees a break from their work.

On the other hand, the labour-intensive nature of shipyard operation makes it difficult for us to attract new talent. To overcome this challenge, we have established an apprenticeship programme to nurture young talent and allow them to gain the unique engineering skillsets required to become technicians at our shipyard operations. In 2017, 8 apprentices were admitted to the programme. All of them enjoyed their first-hand experience of vessel maintenance with our engineers and technicians and enriched their vessel engineering knowledge.

5. OUR GREATEST ASSET - HUMAN CAPITAL (Continued)

a. Working Conditions (Continued)

Case Study – "Exclusive Staff Rewards" Campaign

In 2017, we launched the "Exclusive Staff Rewards" Campaign where we organise activities or give out free gifts by lucky draw every two months to appreciate the hard work and dedication of our employees as well as increase their morale at work. Through the programme, we aim to provide our employees a pleasurable experience and make them feel satisfied and pleased working with us. During the reporting year, we have organised the following activities and reward giveaways:

1. Relaxing Neck, Shoulder and Head Massage Service

   Our first activity under the programme was organised in April 2017 to recharge our employees by offering a free-of-charge neck, shoulder and head massage service. A total of 29 employees participated and received the massage service. The programme was well-received among employees and we look forward to providing unique and fun services and rewards next year!

2. Chinese Dinner Sets for Father's Day Giveaway

3. Theme Park Tickets Giveaway

"I was extremely delighted to be the winner of the lucky draw for the "Exclusive Staff Rewards" Campaign. I received theme park tickets for my kids and I to have a wonderful time during the summer. I greatly appreciate the launch of the programme and look forward to the next round of activities and surprises!"

– Eficle Wong, Internal Audit Department (August 2017)

4. Sports Equipment Cash Coupons Giveaway

5. Dinner Buffet Coupons on Harbour Cruise - Bauhinia Giveaway

5. OUR GREATEST ASSET - HUMAN CAPITAL (Continued)

b. Staff Training and Development

Continuous strengthening of the work skills, capabilities, and professional knowledge of our people is crucial to building a capable and effective workforce. Every year, we identify the training needs of staff members from different operations. Qualified staff members are invited to be trainers and regularly deliver tailored internal training courses for respective departments, in order to strengthen the knowledge base.

We also encourage our employees to pursue different interests and participate in external training on various topics to unleash their full potential, which in turn brings fresh ideas and best-practice knowledge into Hong Kong Ferry Group. For example, we allow corporate office employees of selected departments to participate in seminars and trainings related to their professional disciplines, whether or not they would be earning continuing professional development credits. Shipyard technicians and crew members on vessels are provided with opportunities to participate in external courses for obtaining work-related professional licenses, permits and qualifications. As we identify more external training courses to fulfil the development needs of our staff members, we have allocated a separate budget to sponsor eligible employees who have completed one year of service with satisfactory performance to enrol in external courses. During the reporting year, our employees received a total of approximately 4,151 training hours.

TOTAL TRAINING HOURS RECEIVED BY EMPLOYEES

4,151 hours

We believe applying a systematic approach in our daily routine supports quality assurance and improvement. To further strengthen our capacity to deliver quality services and products, we are planning to provide ISO management system training to staff members such as those from shipyard, ferry operations and Harbour Cruise - Bauhinia in the next reporting year.

c. Occupational Health and Safety

Ensuring workplace health and safety is of paramount importance to Hong Kong Ferry Group. Our Safety Policy sets out our overarching commitments to employee health and safety at the shipyard and other business units, where it manages and mitigates occupational health and safety risks. To ensure a working environment free from alcohol and drugs, our Substance Use Policy, which applies to all our employees, contractors and suppliers who perform duties at the shipyard, was established to prevent the consumption of these substances at the workplace. Employees are always reminded to be familiar with the Safety Policy and Substance Use Policy and follow them in their day-to-day activities. Violation of the Safety Policy may result in disciplinary action up to and including employment termination. There were no non-compliance issues with relevant standards and regulations during the reporting year.

5. OUR GREATEST ASSET - HUMAN CAPITAL (Continued)

c. Occupational Health and Safety (Continued)

A Safety Committee with strong roles and clear duties was established to oversee safety matters and ensure our operations at the shipyard achieve high standards of safety and health. Our Safety Officer performs regular safety inspections and monitors shipyard operations' activities to ensure all employees are working safely and are equipped with appropriate safety gear and personal protection equipment. A safety inspection report is prepared on a weekly basis to identify areas for immediate rectification and recommendations for future safety practices. A morning safety session is also arranged daily to thoroughly remind our employees of safety measures and heighten their safety awareness. Furthermore, a Safety Quiz Competition is organised annually to raise shipyard employees' awareness of occupational health and safety and cultivate a safety culture.

We take every step to safeguard our employees from all health and safety hazards and prepare them to manage unexpected health and safety incidents in an effective manner. An annual fire drill is conducted at the shipyard and the Principal Office to familiarise our employees with safety and evacuation procedures. Crew members on vessels and at the piers are well-trained and are familiar with safety protocols and guidelines. To make sure our crew members are acquainted with various procedures to be followed during an emergency situation, emergency drills including fire and major injury incidents are conducted twice a month on the vessels and at the piers for Dangerous Goods Vehicular Ferry Services, whilst emergency drills are conducted quarterly at Harbour Cruise – Bauhinia. Collaboration and participation are very important to achieving safety excellence. Therefore, a joint fire drill exercise is arranged quarterly to exchange knowledge between the Dangerous Goods Vehicular Ferry Services and Harbour Cruise – Bauhinia, and to develop coordination for any unforeseeable incidents.

Joint fire drill exercise organised by Dangerous Goods Vehicular Ferry Services and Harbour Cruise – Bauhinia

Staff well-being leads to a more productive and engaged workforce. Our Group medical insurance plan provides outpatient and hospitalisation coverage for both our employees and their families. Additional insurance plan options such as self-subscribed medical top-up insurance and dental plans are also provided for employees joining on their own to enjoy affordable health services. Periodic health check-up and vaccination subsidies are offered to our employees to help them keep track of their health and wellness and prevent diseases. To take good care of our employees' wellness and ensure they are in good health to perform their duties, staff members of shipyard and ferry operations who are aged 50 or above are eligible for a one-off free medical check-up. Such initiatives would help to educate, motivate and inspire our employees to get more involved in their own wellness journey and be aware of any health alerts in their lives.

5. OUR GREATEST ASSET - HUMAN CAPITAL (Continued)

d. Anti-Corruption

We attribute our longevity and success to upholding the highest level of business ethics and integrity in our operations. We adopt a zero-tolerance approach to corruption or malpractice of any form including bribery, money laundering, extortion and fraud. All employees are expected to read, understand and strictly follow a clear set of guidelines as delineated in the Code of Conduct, which requires all employees to exercise due diligence. During the reporting year, there were no confirmed cases of non-compliance with the anti-corruption regulations of Hong Kong.

To keep abreast of the latest trends in anti-corruption enforcement, we arrange biennial seminars and talks with the Independent Commission Against Corruption for relevant staff members, particularly for business units that may be exposed to higher corruption risks, such as purchasing and procurement, tendering, sales and marketing. Our last round of training was conducted in 2016, with 88% and 91% of attendance rates for ethics management and catering integrity, respectively.

Under the Company's whistle-blowing policy, our employees at all levels are encouraged to report violations or suspected violations and raise concerns of any improper behaviours. All whistle-blowing disclosures will be treated as confidential and will be submitted to the Internal Audit Manager for further investigation.

6. OUR CONTRIBUTION TO THE COMMUNITY

As a company that was founded, and has flourished in Hong Kong, we witnessed the development of our community and are proud to be part of it, providing good quality services, opportunities and support for our customers, employees and the underprivileged.

a. Hong Kong Ferry Group and Hong Kong Community

With the support of our Board of Directors at the strategic level, and the active participation and support of our staff, over the years CSR has become an essential part of the culture of Hong Kong Ferry Group. Three principles guide our CSR initiatives and corporate culture: love Victoria Harbour, love Hong Kong, and care for the people.

At a time when public transportation was lacking, with the aim of providing convenience for the public, we spearheaded cross-harbour vehicular ferry services in March 1933. Being the only way for private and commercial vehicles to commute between Hong Kong Island and Kowloon at the time, the vehicular ferry services played an important part in supporting the economic development of Hong Kong. During the golden period spanning the 1960s and 1970s, we had a total of 17 ferries carrying passengers and vehicles across the harbour, with an annual passenger volume of about 200 million. Although the last vehicular ferry route, from North Point to Kowloon City, was suspended in January 1998 due to the opening of the Cross Harbour Tunnels and the network expansion of rail services, such services undoubtedly played a historic role and remain an important part of the collective memories of the Hong Kong people.

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

a. Hong Kong Ferry Group and Hong Kong Community (Continued)

Did you know…?

From the 1920s to the 1990s, the Company operated more than 25 passenger and vehicular ferry routes across the Victoria Harbour, enabling countless people to continue their journeys in Hong Kong. The historic routes included Central-Jordan, Central-Tai Kok Tsui, Central-Tuen Mun, Tsuen Wan-Tsing Yi, Wan Chai-Kowloon City and various others through which we may have had the pleasure of having you on board.

"Putting people first" has always been our core value since the Company's establishment in 1923. In fact, all our ferry names begin with the character "Man", meaning "people" in Cantonese. For example, two of our operating ferries are named "Man On" and "Man Lok", meaning "safe and peaceful people" and "happy people", respectively.

Man Hoi – a vehicular ferry in the 1960s

Last year, to celebrate the 20th anniversary of Hong Kong's return to Mainland China and to relive the good old days, we organised the "Classic Vehicular Ferry Ride" (懷舊汽車渡輪遊) in May and July 2017. The rides received an overwhelming response from the community with over a thousand of participants. Participants could drive their private cars onto our ferries, and enjoy the spectacular view of Victoria Harbour. Through the journey, we hope to preserve the collective memories and experiences of the Hong Kong community, and allow the new generations to also have a taste of old Hong Kong.

On 7 July 2017, Liaoning, China's first aircraft carrier, made its maiden call in Hong Kong, marking the 20th anniversary of the city's handover. To commemorate this special occasion together with the citizens of Hong Kong, the Harbour Cruise - Bauhinia organised a cruise on Saturday afternoon for families to get close to Liaoning. The visitors were excited to have the opportunity to view the pride of China's navy while onboard our Man Lok vessel.

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community

Our corporate social responsibility initiatives focus on serving underprivileged families, children and the elderly, and providing a platform for learning and exchanging knowledge.

"Loving Hong Kong Loving Home"

We believe that it is important to create a nurturing and loving environment for the younger generation as they grow up to become future leaders of Hong Kong. With this mission in mind, we have collaborated with Wofoo Social Enterprises to run the "Loving Hong Kong Loving Home" series for six consecutive years.

This year, activities are multi-faceted. Apart from the four cruise parties in July and October 2017 which engaged over 1,400 children and their parents from underprivileged families, we also organised a carnival ashore with booth games, teaching children to cherish resources and practise thriftiness. Daily necessities, such as electrical appliances, stationery and condiments were distributed to the families as gifts. To promote the role of a good diet in maintaining health, we invited Chinese Medicine Practitioners to share information on the nutrition of seasonal foods and tips on creating recipes catering for different family needs with the parents. Throughout the year, we led the children to visit different industry facilities and places with which they are not familiar and would not be able to access on a daily basis. For example, a visit to Hong Kong Sea School was arranged in May 2017, for participants to have a better understanding of life at this unconventional boarding school.

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community (Continued)

Case Study – "Loving Hong Kong Loving Home" Series – Pok Oi Halloween Cruise Party 2017

On a beautiful sunny day, we jointly organised the Pok Oi Halloween Cruise Party with Pok Oi Hospital, receiving over 350 people from grassroots families from different regions. Aboard the Harbour Cruise – Bauhinia, participants enjoyed the stunning harbour view of Hong Kong, overlooking landmarks such as the Kai Tak Cruise Terminal, Avenue of Stars, Clock Tower, International Finance Centre, Hong Kong Convention and Exhibition Centre, and the Golden Bauhinia Square. A buffet was served with a variety of performances on the side to entertain. We are glad to bring some new experiences to the participants!

Behind the scenes…

Our colleagues took part in handicraft classes during lunch breaks and made a total of 1,000 towel dolls for children at the cruise party and the elderly from grassroots families. It certainly gave our colleagues a sense of achievement to be able to make crafts out of towels. We look forward to having your support next time!

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community (Continued)

Internship and Shipyard Visits

As a company with almost a century's history, we believe that sharing our knowledge and experiences with professionals (such as members of The Chartered Institute of Logistics and Transport in Hong Kong, members of The Hong Kong Institution of Engineers), academia, NGOs (such as Business Environment Council), students and the like, will have a multiplier effect on the industry, thereby further contributing to the social and economic development of Hong Kong. We encourage and host students from tertiary institutions, Hong Kong Sea School, and secondary schools to either visit or intern with us. In 2017, a total of 17 students interned with various divisions and subsidiaries of the Company. It provided them with opportunities to participate in the Company's operations on the ground and prepare themselves for the job market in the future. In addition, over 300 students visited our shipyard, which they found rewarding as it opened up new horizons outside the classroom.

I would like to say 'Thank you' to the Company for…

- Making this internship a fruitful one. Not only did my supervisors bring me onsite to learn about marine propulsion engineering, they also gave me a lot of advice on my final year report.
- Widening my horizons about mechanical engineering and marine propulsion engineering, especially how to apply the knowledge in a real situation.
- Giving me the chance to gain in-depth understanding of the shipping industry.
- Showing me both the traditional and modern techniques of ship repairing and maintenance.
- The patience and kindness that I received from this big "family"!

Hong Kong Sea School interns at navigating room

Hong Kong Sea School interns on vehicular ferry

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community (Continued)

HKUST intern at corporate office

IVE interns at corporate office, after project presentation

Intern from Auckland University of Technology & Australian Maritime College

IVE interns at corporate office

Corporate Volunteer Team

Rooted in the caring culture of the Company, our employees find community events and volunteering time enjoyable and meaningful for themselves as well as their family members. Since its establishment in 2008, the Corporate Volunteer Team has supported a variety of charities. In 2017 alone, we have contributed more than 800 volunteer hours to benefit around 3,700 friends in our community.

BENEFICIARIES	VOLUNTEER HOURS
~3,700	800+

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community (Continued)

Highlights

27 May 2017	Volunteers delivered and distributed rice to low-income and underprivileged groups in our society during the "Neighbourhood First" volunteering activity organised by The Hong Kong Federation of Youth Groups.	
15 August 2017	Hong Kong Ferry Group partnered with China Candlelight Educational Fund and arranged a complimentary Harbour Cruise ride and dinner buffet for 40 university students from Mainland China.	
19 August 2017	Volunteers and their families helped the elderly to choose and purchase healthy food at the "Eating with Health and Joy" event organised by the Promoting Happiness Index Foundation.	
19-20 August 2017	The Metro Harbour Plaza sponsored the venue for 'Exclusive Pet' charitable event organised by HK Paws Guardian, an animal protection/welfare organisation, to support the organisation in protecting abandoned and abused animals.	
30 September 2017	Volunteers participated in an elderly visit hosted by Wofoo Social Enterprises and New Life Church of Christ Ho Man Tin Elderly Centre. They visited singleton elderly and distributed mooncakes and presents, sending them love and warmth during the Mid-Autumn Festival.	
17 November 2017	Five volunteers visited the Butterfly Bay Community Centre at Pok Oi Hospital and distributed 60 gift bags to the elderly.	

7. VALUE CHAIN MANAGEMENT

We endeavour to provide safe, reliable and thoughtful services which closely align with our customers' needs. Besides attentively listening to our customers and rapidly responding to their feedback, we also engage with our suppliers and contractors regularly to ensure we share the same goal in delivering quality products and services.

a. Supply Chain Management

To manage the environmental and social risks in Hong Kong Ferry Group's extensive network of suppliers and contractors, we work closely with our business partners to ensure the quality of the products and services provided through our diversified businesses of property development, and ferry and shipyard operations.

We engage our suppliers and contractors with the highest standards of ethical business practices, guided by our Code of Conduct. Our Company's procurement and tendering procedures ensure fairness and openness. Suppliers and contractors are selected based on the price, quality, need and environmental considerations. In addition, management controls are in place to prevent and detect bribery or other malpractices during the process.

As a long-standing company in Hong Kong, we maintain long-term relationships with our key suppliers and business partners. To effectively monitor and manage our suppliers, we update our database of approved suppliers on an annual or quarterly basis. Performance reviews were carried out periodically on our suppliers and through a Supplier Evaluation Report and a Supplier Performance Review. We also conduct comprehensive inspections on suppliers with substandard performance such as late deliveries. When issues are identified, we develop corrective actions with our suppliers promptly for remediation.

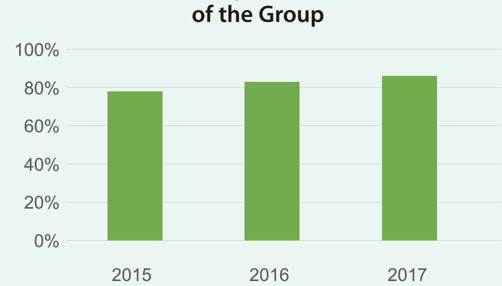
It is a requirement that our suppliers and contractors must comply with all local environmental, employment and safety related regulations. To ensure compliance and promote best practices, we have implemented various measures such as conducting monthly joint safety inspections with onsite contractors, and including a tender requirement for implementing a construction waste management plan during works.

To mitigate environmental impacts, and support industries and businesses in Hong Kong, we prioritise local procurement. Through procuring materials, goods and services locally, we can lower the carbon footprint of our supply chain and support the Hong Kong economy. During the reporting year, we achieved an overall local procurement rate of 89%.

Local procurement rate achieved by Harbour Cruise – Bauhinia in 2017

100%

Overall local procurement rate of the Group



7. VALUE CHAIN MANAGEMENT (Continued)

b. Responsible Products and Services

Delivering quality and responsible products and services for our clients and customers is highly important in driving sustainable business growth. From quality assurance and customer satisfaction measurement to the protection of customer privacy and intellectual property rights, we enforced sound policies and systems to drive continuous improvement. During the reporting year, there were no reported cases of non-compliance with relevant laws and regulations.

Our ferry, shipyard and Harbour Cruise – Bauhinia operations adopt the internationally recognised ISO 9001:2008 Quality Management Systems. Coupled with our effective internal auditing process, we are able to control the quality of the products and services we delivered across our diversified operations. The success can be measured by our customer satisfaction surveys which are carried out throughout the year across our business units. We also keep a Service Evaluation Record seeking detailed client feedback, which is reviewed quarterly for non-contractual customers and annually for contractual customers. Both the results of the surveys and detailed client feedback are analysed to help devise business strategy for better customer service. Regarding the two written complaints received during the reporting year, we actively engaged with the clients by setting up face-to-face meetings, and conducted discussions with our management and engineers to continuously identify opportunities for service enhancement.

The frequency and overall results of customer satisfaction surveys

Business Units	Harbour Cruise – Bauhinia	Shipyard Operation	Dangerous Goods Vehicular Ferry Services
Frequency	Weekly	Contract basis: Yearly Project basis: Each project	Twice a year
Satisfaction Rate	95%	Contract basis: 100% Project basis: Above 95%	97%

To treat customer data with utmost care and comply with all relevant laws and regulations, our Employee Internet and Email Use Policy provides guidelines for employees to operate Hong Kong Ferry Group's computer network in a safe and responsible manner, ensuring the integrity and confidentiality of the Company's network in safeguarding customer data.

7. VALUE CHAIN MANAGEMENT (Continued)

b. Responsible Products and Services (Continued)

Case Study – Protecting customer data and privacy

Cyberattacks have been an increasing risk for businesses in Hong Kong in recent years. Since Harbour Cruise – Bauhinia handles a substantial amount of personal data every day, we take extra precautions in building layers of IT security measures to safeguard customer data.

- All computer systems and networks in Hong Kong Ferry Group have anti-virus software and firewalls installed.
- All web servers recording all access activities and the log files are regularly reviewed to check for any abnormal activities.
- Database privileges and roles are set to each staff-user individually to prevent confidential data exposure.
- The internet connection between Harbour Cruise – Bauhinia Office and the database server is connected and protected by VPN channels.
- Data masking techniques have been implemented on all critical databases.
- The Harbour Cruise – Bauhinia web-based online booking system is protected by SSL-encrypted connection.

To better protect customer privacy, Harbour Cruise - Bauhinia customers can decide whether or not to receive promotional information during online registration, and such option can be changed anytime without any restrictions.

We also observe and respect intellectual property rights. At Harbour Cruise – Bauhinia, we comply with music copyright laws and have paid music royalties under a Copyright Music Performance Licence Contract. The Harbour Cruise – Bauhinia is also registered as a trademark with the Trade Marks Registry, Intellectual Property Department of the Hong Kong Government.

8. THE WAY FORWARD

We are excited by the progress that we have made so far in our sustainability journey, and are prepared to face the challenges ahead of us. We are committed to stepping up efforts in our initiatives, and building closer ties with our stakeholders as well as the local community. Looking ahead, we strive to improve our energy performance, enhance the well-being of our employees, provide high quality services to our customers and extend our care to the wider community.

For the past 95 years, from one generation to another, we have been with the people in Hong Kong supporting local development through the ups and downs. As economy prospers and society advances, we are proud to be a part of the transformation. We will continue to uphold our long standing "people-first" principle and put it into full practice in the upcoming ESG initiatives. With our commitment and determination, we will continue our mission to achieve sustainable development for Hong Kong Ferry Group and our precious city in years to come.

9. PERFORMANCE DATA SUMMARY

HKEx KPI		Unit	FY2017	FY2016
A. Environmental				
A1.1	**The types of emissions and respective emissions data** (Note 1)			
	NOx	Tonnes	114.64	111.79
	SOx	Tonnes	0.13	0.12
	PM	Tonnes	2.90	2.86
A1.2	**Greenhouse gas emissions in total and intensity** (Note 2)			
	– in total	Tonnes of CO_2e	7,213.21	7,261.32
	– in intensity	Tonnes of CO_2e per ferry, shipyard and Harbour Cruise – Bauhinia operations total revenue (HK$ million)	38.86	46.27
A1.3	**Total hazardous waste recycled and intensity**			
	Recycled Spent Oil – in total – in intensity	 Litres Litres/FTE (Note 3)	 11,200 52.58	 N/A
	Used Battery – in total – in intensity	 kg kg/FTE	 540 2.54	 N/A
A1.4	**Total non-hazardous waste produced and intensity**			
	General Waste (Note 4) – in total – in intensity	 kg kg/FTE	 2,516 11.81	 2,268 10.70
	Food Waste (Note 4) – in total – in intensity	 kg kg/FTE	 4,010 18.83	 3,760 17.74 (restated)
	Paper Waste (Note 4) – in total – in intensity	 kg kg/FTE	 2,136 10.03	 1,780 (restated) 8.40 (restated)
	Recycled Paper (Note 5) – in total – in intensity	 kg kg/FTE	 2,580 12.17	 4,845 22.85
	Recycled Glass Bottle (Note 4) – in total – in intensity	 kg kg/FTE	 3,101 96.91	 N/A
	Recycled Aluminium (Note 6) – in total – in intensity	 kg kg/FTE	 358 3.38	 N/A

9. PERFORMANCE DATA SUMMARY (Continued)

HKEx KPI		Unit	FY2017	FY2016
A. Environmental (Continued)				
A1.4	**Total non-hazardous waste produced and intensity** (Continued)			
	Recycled Bronze (Note 7) – in total – in intensity	 kg kg/FTE	 370 1.74	 N/A
	Recycled Steel (Note 7) – in total – in intensity	 kg kg/FTE	 6,800 31.92	 N/A
	Recycled Zinc Alloy (Note 7) – in total – in intensity	 kg kg/FTE	 800 3.76	 N/A
	Recycled Used Cooking Oil (Note 7) – in total – in intensity	 Litres Litres/FTE	 666 3.13	 N/A
	Recycled Oily Water (Note 7) – in total – in intensity	 Litres Litres/FTE	 4,000 18.78	 N/A
A2.1	**Energy consumption by type and intensity** (Note 2)			
	– Fuel oil	Litres	20,004,556	1,998,688
	– Electricity	kWh	1,801,475	1,940,756
	– in total	In 1000 kWh	21,806	24,105
	– in intensity	1000 kWh per ferry, shipyard and Harbour Cruise – Bauhinia operations total revenue (HK$ million)	117.49	153.60
A2.2	**Water consumption in total and intensity**			
	– in total	m^3	26,534	21,596 (restated)
	– in intensity	m^3/FTE	124.57	101.87 (restated)

9. PERFORMANCE DATA SUMMARY (Continued)

<table>
<tr><th>HKEx KPI</th><th colspan="2">Unit</th><th colspan="6">FY2017</th><th colspan="6">FY2016</th></tr>
<tr><td colspan="15">B. Social</td></tr>
<tr><td colspan="15">Employment and Labour Practices</td></tr>
<tr><td rowspan="7">B1.1</td><td colspan="2">Total workforce by employment type and gender</td><td colspan="3">Male</td><td colspan="3">Female</td><td colspan="3">Male</td><td colspan="3">Female</td></tr>
<tr><td>Full-time</td><td>No. of people</td><td colspan="3">172</td><td colspan="3">41</td><td colspan="3">171</td><td colspan="3">41</td></tr>
<tr><td>Part-time</td><td>No. of people</td><td colspan="3">1</td><td colspan="3">0</td><td colspan="3">0</td><td colspan="3">0</td></tr>
<tr><td colspan="2">Total workforce by employment type and age group</td><td colspan="2"><30</td><td colspan="2">30-50</td><td colspan="2">>50</td><td colspan="2"><30</td><td colspan="2">30-50</td><td colspan="2">>50</td></tr>
<tr><td>Full-time</td><td>No. of people</td><td colspan="2">31</td><td colspan="2">57</td><td colspan="2">125</td><td colspan="2">25</td><td colspan="2">60</td><td colspan="2">127</td></tr>
<tr><td>Part-time</td><td>No. of people</td><td colspan="2">0</td><td colspan="2">0</td><td colspan="2">1</td><td colspan="2">0</td><td colspan="2">0</td><td colspan="2">0</td></tr>
<tr><td rowspan="4">B1.2</td><td colspan="2">Employee turnover rate by gender</td><td colspan="3">Male</td><td colspan="3">Female</td><td colspan="3">Male</td><td colspan="3">Female</td></tr>
<tr><td></td><td>%</td><td colspan="3">6.1</td><td colspan="3">2.8</td><td colspan="3">6.9</td><td colspan="3">0.9</td></tr>
<tr><td colspan="2">Employee turnover rate by age group</td><td colspan="2"><30</td><td colspan="2">30-50</td><td colspan="2">>50</td><td colspan="2"><30</td><td colspan="2">30-50</td><td colspan="2">>50</td></tr>
<tr><td></td><td>%</td><td colspan="2">3.7</td><td colspan="2">2.8</td><td colspan="2">2.4</td><td colspan="2">2.8</td><td colspan="2">3.2</td><td colspan="2">1.9</td></tr>
<tr><td rowspan="3">B2.1</td><td colspan="14">Number and rate of work-related fatalities</td></tr>
<tr><td>– By number</td><td>No. of people</td><td colspan="6">0</td><td colspan="6">0</td></tr>
<tr><td>– By rate</td><td>%</td><td colspan="6">0</td><td colspan="6">0</td></tr>
<tr><td rowspan="2">B2.2</td><td colspan="14">Lost days due to work injury</td></tr>
<tr><td></td><td>Days</td><td colspan="6">745</td><td colspan="6">583</td></tr>
<tr><td rowspan="5">B3.1</td><td colspan="2">The percentage of employees trained by gender and employee category</td><td colspan="2">Total</td><td colspan="2">Male</td><td colspan="2">Female</td><td colspan="2">Total</td><td colspan="2">Male</td><td colspan="2">Female</td></tr>
<tr><td>– General</td><td>%</td><td colspan="2">90.29</td><td colspan="2">93.92</td><td colspan="2">70.37</td><td colspan="2">98.30</td><td colspan="2">98.66</td><td colspan="2">96.30</td></tr>
<tr><td>– Supervisors to Managers</td><td>%</td><td colspan="2">83.33</td><td colspan="2">88.24</td><td colspan="2">76.92</td><td colspan="2">100</td><td colspan="2">100</td><td colspan="2">100</td></tr>
<tr><td>– Management</td><td>%</td><td colspan="2">100</td><td colspan="2">100</td><td colspan="2">100</td><td colspan="2">100</td><td colspan="2">100</td><td colspan="2">100</td></tr>
<tr><td>– Overall</td><td>%</td><td colspan="2">89.67</td><td colspan="2">93.60</td><td colspan="2">73.17</td><td colspan="2">98.58</td><td colspan="2">98.83</td><td colspan="2">97.56</td></tr>
</table>

9. PERFORMANCE DATA SUMMARY (Continued)

HKEx KPI		Unit	FY2017			FY2016		
B. Social (Continued)								
Employment and Labour Practices (Continued)								
B3.2	**The average training hours completed per employee by gender and employee category**		Total	Male	Female	Total	Male	Female
	– General	Hours	18.92	20.70	9.16	17.87	20.04	5.90
	– Supervisors to Managers	Hours	12.43	13.79	10.65	17.59	19.43	15.46
	– Management	Hours	58.31	62.21	31.00	56.16	60.43	26.25
	– Overall	Hours	19.49	21.71	10.16	19.28	21.64	9.43
Operating Practices								
B5.1	**Number of suppliers by geographical region** (Note 8)							
	– Hong Kong	No. of organisations	519			585		
	– Mainland China	No. of organisations	24			46		
	– Others (e.g. Asia and Europe)	No. of organisations	41			60		
B6.2	**Number of product and service related complaints received**							
	No. of cases		2			0		
B7.1	**Number of concluded cases regarding corrupt practices brought against Hong Kong Ferry or its employees during the reporting year**							
	No. of cases		0			0		

Notes:

1. Emission data are confined to The Hongkong and Yaumati Ferry Company Limited. 2016 NOx data is restated as emission estimation methodology is improved to enhance data accuracy. Marine air emissions data are calculated based on harbour craft emissions estimation methodology in *Port of Los Angeles Inventory of Air Emissions 2005 Technical Report* (https://www.portoflosangeles.org/DOC/2005_Air_Emissions_Inventory_Full_Doc.pdf).
2. For 2016 and 2017, GHG emission data and energy consumption data are confined to The Hong Kong Shipyard Limited, The Hongkong and Yaumati Ferry Company Limited and Harbour Cruise - Bauhinia. With consideration of the scope, the intensity figures of GHG emissions and energy consumption are calculated using the ferry, shipyard and Harbour Cruise – Bauhinia operations total revenue (HK$ million).
3. FTE: Full-time equivalent employee; excluding part-time employees.
4. The data are confined to Harbour Cruise – Bauhinia. Food waste was recycled in 2016.
5. The data are confined to the principal office.
6. The data are confined to The Hong Kong Shipyard Limited and Harbour Cruise – Bauhinia.
7. The data are confined to The Hong Kong Shipyard Limited.
8. Supplier data are confined to The Hong Kong Shipyard Limited, The Hongkong and Yaumati Ferry Company Limited and Harbour Cruise – Bauhinia and calculated based on the number of suppliers, contractors, subcontractors, consultants and service providers engaged during the year.

10. HKEX ESG CONTENT INDEX

Aspect	HKEx KPI	Description	Page Number/ Remarks
A. Environmental			
A1 Emissions	A1	General Disclosure	47-51
	A1.1	The types of emissions and respective emissions data	66
	A1.2	Greenhouse gas emissions in total and intensity	66
	A1.3	Total hazardous waste produced and intensity	66
	A1.4	Total non-hazardous waste produced and intensity	66-67
	A1.5	Description of measures to mitigate emissions and results achieved	47-49
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	50-51
A2 Use of Resources	A2	General Disclosure	47-51
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	67
	A2.2	Water consumption in total and intensity	67
	A2.3	Description of energy use efficiency initiatives and results achieved	47-49
	A2.4	Description of issue in sourcing water, water efficiency initiatives and results achieved	50
	A2.5	Total packaging material used for finished products	Not applicable to Hong Kong Ferry Group
A3 The Environment and Natural Resources	A3	General Disclosure	47, 51
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	47, 51

10. HKEX ESG CONTENT INDEX (Continued)

Aspect	HKEx KPI	Description	Page Number/ Remarks
B. Social			
Employment and Labour Practices			
B1 Employment	B1	General Disclosure	52-53
	B1.1	Total workforce by gender, employment type, age group and geographical region	68
	B1.2	Employee turnover rate by gender, age group and geographical region	68
B2 Health and Safety	B2	General Disclosure	54-55
	B2.1	Number and rate of work-related fatalities	68
	B2.2	Lost days due to work injury	68
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	54-55
B3 Development and Training	B3	General Disclosure	54
	B3.1	Percentage of employees trained by gender and employee category	68
	B3.2	Average training hours completed per employee by gender and employee category	69
B4 Labour Standards	B4	General Disclosure	We abide by relevant employment ordinances and statutory requirements of Hong Kong. No relevant cases of non-compliance were recorded.
	B4.1	Description of measures to review employment practices to avoid child and forced labour	
	B4.2	Description of steps taken to eliminate such practices when discovered	

10. HKEX ESG CONTENT INDEX (Continued)

Aspect	HKEx KPI	Description	Page Number/ Remarks
B. Social (Continued)			
Operating Practices			
B5 Supply Chain Management	B5	General Disclosure	63
	B5.1	Number of suppliers by geographical region	69
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where and how the practices are being implemented and monitored	63
B6 Product Responsibility	B6	General Disclosure	64-65
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable to Hong Kong Ferry Group
	B6.2	Number of products and service related complaints received and how they are dealt with	64, 69
	B6.3	Description of practices relating to observing and protecting intellectual property rights	65
	B6.4	Description of quality assurance process and recall procedures	64
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	64-65
B7 Anti-corruption	B7	General Disclosure	56
	B7.1	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	69
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	56
Community			
B8 Community Investment	B8	General Disclosure	56-62
	B8.1	Focus areas of contribution	56-62
	B8.2	Resources contributed to the focus area	56-62

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of
Hong Kong Ferry (Holdings) Company Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Hong Kong Ferry (Holdings) Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 79 to 159, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Valuation of investment properties

Refer to note 1 (accounting policy) and note 13 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group's investment properties which comprise retail properties, car parking spaces and godowns are located in Hong Kong. These investment properties were stated at their fair values of HK$2,108 million as at 31 December 2017 which accounted for 56% of the Group's non-current assets as at that date. The fair values of the Group's investment properties as at 31 December 2017 were assessed by the board of directors based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair values of investment properties recorded in the consolidated profit or loss represented 16% of the Group's profit for the year ended 31 December 2017. The valuation of the Group's investment properties is complex and involves a significant degree of management judgement and estimation in respect of the determination of capitalisation rates and prevailing market rents, particularly given the dissimilar nature of the investment properties held by the Group. We identified valuation of investment properties as a key audit matter because these properties represent the majority of the Group's non-current assets and because the valuations are inherently subjective and involve a significant degree of judgement and estimation by management which increases the risk of error or potential management bias.	Our audit procedures in relation to valuation of investment properties included the following: – obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties was based; – assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence; – with the assistance of our internal property valuation specialists, discussing with the external property valuers their valuation methodology, without the presence of management, and challenging the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with the market available data and government produced market statistics; – comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis.

KEY AUDIT MATTERS (Continued)

Assessing the net realisable value of properties under development for sale ("PUD")

Refer to note 1 (accounting policy) and note 19 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The PUD of the Group is located in Hong Kong and is stated at lower of cost and net realisable value which totalled HK$443 million as at 31 December 2017. The determination of the net realisable value of the PUD is performed by management. It involves significant judgement and estimation in preparing and updating project feasibility studies and estimations of the costs to complete the property development projects as well as in assessing the expected future selling prices for the properties and the expected future selling costs. Changes in government policies in relation to the stamp duty regime, restrictions on residential property mortgage loans and the impact of the global economy on local interest rates could lead to volatility in property prices in Hong Kong. We identified the assessment of net realisable value of the Group's PUD as a key audit matter because of the inherent risks involved in estimating the costs to complete each property development project and in estimating the future selling prices for each property development project.	Our audit procedures to assess the net realisable value of PUD included the following: – obtaining management's assessment of the net realisable value of each PUD project and discussing with management the development progress of each project; – conducting site visits to the PUD to observe the development progress and comparing the observed development progress with management's records; – discussing with management their valuation methodology and challenging the key estimates and assumptions adopted, including expected future selling prices and costs to completion, by comparison with recently transacted prices for similar properties or the prices of comparable properties located in the nearby vicinity of the PUD and by comparison with market statistics for estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group; – performing sensitivity analyses by making adjustments to the key estimates and assumptions adopted by management in the determination of net realisable value to assess the risk of possible management bias in the net realisable value assessment exercise.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ming.

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

20 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue	3(a)	**493,529**	501,759
Direct costs		**(231,120)**	(245,205)
		262,409	256,554
Other revenue	3(a) & 4	**59,353**	46,175
Other net income	4	**66,478**	47,310
Valuation gains on investment properties	3(d) & 13	**56,954**	59,305
Impairment loss on available-for-sale securities	17	**–**	(46,281)
Selling and marketing expenses		**(11,510)**	(25,311)
Administrative expenses		**(44,263)**	(42,097)
Other operating expenses		**(4,293)**	(4,628)
Profit from operations	3(b)	**385,128**	291,027
Share of profits less losses of associates		**926**	920
Share of loss of a joint venture		**(101)**	(5)
Gain on disposal of subsidiaries		**–**	4,561
Profit before taxation	6	**385,953**	296,503
Taxation	7(a)	**(39,661)**	(51,942)
Profit for the year from continuing operations		**346,292**	244,561
Discontinued operation			
Loss for the year from discontinued operation	5(a)	**–**	(7,883)
Profit attributable to equity shareholders of the Company		**346,292**	236,678
Earnings/(loss) per share – Basic and diluted	12		
– Continuing operations		**$0.97**	$0.68
– Discontinued operation		**–**	(0.02)
		$0.97	$0.66

The notes on pages 86 to 159 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Profit attributable to equity shareholders of the Company		**346,292**	236,678
Other comprehensive income for the year (after tax and reclassification adjustments)	*11*		
Item that will not be reclassified to profit or loss:			
Remeasurement of employee retirement benefits liabilities		**2,125**	649
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale securities:			
net movement in the securities revaluation reserve		**565**	28,871
Other comprehensive income for the year		**2,690**	29,520
Total comprehensive income attributable to equity shareholders of the Company		**348,982**	266,198

The notes on pages 86 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2017 HK$'000	2016 HK$'000	2016 HK$'000
Non-current assets					
Investment properties	13		**2,107,585**		2,050,655
Other property, plant and equipment	13		**56,123**		58,957
Interest in leasehold land	13		**40,400**		41,769
			2,204,108		2,151,381
Interest in associates	15		**9,109**		10,449
Interest in a joint venture	16		**1,364,295**		1,354,395
Available-for-sale securities	17		**176,306**		661,542
Deferred tax assets	24(b)		**5,036**		5,248
			3,758,854		4,183,015
Current assets					
Inventories	19(a)	**559,490**		487,162	
Trade and other receivables	20	**690,613**		853,769	
Other financial assets	21	**–**		20,000	
Cash and bank balances	22(a)	**1,791,679**		949,449	
Tax recoverable	24(a)	**27,860**		22,174	
		3,069,642		2,332,554	
Current liabilities					
Trade and other payables	23	**743,320**		629,706	
Tax payable	24(a)	**16,230**		41,288	
		759,550		670,994	
Net current assets			**2,310,092**		1,661,560
Total assets less current liabilities			**6,068,946**		5,844,575
Non-current liabilities					
Net employee retirement benefits liabilities	18(a)	**3,024**		4,468	
Deferred tax liabilities	24(b)	**55,153**	**58,177**	50,062	54,530
NET ASSETS			**6,010,769**		5,790,045

At 31 December 2017

	Note	2017 HK$'000	2017 HK$'000	2016 HK$'000	2016 HK$'000
CAPITAL AND RESERVES					
Share capital	25(b)		**1,754,801**		1,754,801
Reserves			**4,255,968**		4,035,244
TOTAL EQUITY			**6,010,769**		5,790,045

Approved and authorised for issue by the board of directors on 20 March 2018.

Dr. Lam Ko Yin, Colin
Chairman

Li Ning
Director

The notes on pages 86 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Share capital HK$'000 (Note 25(b))	Securities revaluation reserve HK$'000 (Note 25(c))	Other capital reserves HK$'000 (Note 25(c))	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2016		1,754,801	(31,220)	605	3,927,919	5,652,105
Changes in equity for 2016:						
Profit for the year		–	–	–	236,678	236,678
Other comprehensive income		–	28,871	–	649	29,520
Total comprehensive income		–	28,871	–	237,327	266,198
Dividends approved in respect of the previous year	10	–	–	–	(92,631)	(92,631)
Dividends declared in respect of the current year	10	–	–	–	(35,627)	(35,627)
Balance at 31 December 2016 and 1 January 2017		**1,754,801**	**(2,349)**	**605**	**4,036,988**	**5,790,045**
Changes in equity for 2017:						
Profit for the year		**–**	**–**	**–**	**346,292**	**346,292**
Other comprehensive income		**–**	**565**	**–**	**2,125**	**2,690**
Total comprehensive income		**–**	**565**	**–**	**348,417**	**348,982**
Dividends approved in respect of the previous year	10	**–**	**–**	**–**	**(92,631)**	**(92,631)**
Dividends declared in respect of the current year	10	**–**	**–**	**–**	**(35,627)**	**(35,627)**
Balance at 31 December 2017		**1,754,801**	**(1,784)**	**605**	**4,257,147**	**6,010,769**

The notes on pages 86 to 159 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	2017 HK$'000	2017 HK$'000	2016 HK$'000	2016 HK$'000
Operating activities					
Profit/(loss) before taxation					
– Continuing operations			**385,953**		296,503
– Discontinued operation			**–**		(7,780)
			385,953		288,723
Adjustments for:					
Depreciation	*6(b)*	**5,676**		5,884	
Amortisation of leasehold land premium	*6(b)*	**1,369**		1,369	
Impairment losses on trade and other receivables	*6(b)*	**–**		90	
Impairment loss on available-for-sale securities	*17*	**–**		46,281	
Net profit on disposal of available-for-sale securities	*4*	**(61,522)**		(18,928)	
Net (profit)/loss on disposal of financial assets designated at fair value through profit or loss	*4*	**(2,930)**		10,040	
Net (profit)/loss on disposal of other property, plant and equipment	*4*	**(3)**		1	
Net profit on disposal of investment properties	*4*	**–**		(2,508)	
Gain on disposal of subsidiaries		**–**		(4,561)	
Cost adjustment	*4*	**(106)**		(34,145)	
Valuation gains on investment properties	*13*	**(56,954)**		(59,305)	
Interest income		**(35,148)**		(22,531)	
Dividend income from listed investments		**(11,663)**		(25,219)	
Share of profits less losses of associates		**(926)**		(920)	
Share of loss of a joint venture		**101**		5	
			(162,106)		(104,447)
Operating profit before changes in working capital			**223,847**		184,276
Decrease in net employee retirement benefits liabilities		**681**		787	
(Increase)/decrease in inventories		**(66,898)**		38,697	
Decrease/(increase) in trade and other receivables		**261,751**		(647,603)	
Increase in trade and other payables		**108,311**		390,582	
			303,845		(217,537)
Cash generated from/(used in) operations			**527,692**		(33,261)
Profits tax paid		**(65,102)**		(203,448)	
			(65,102)		(203,448)
Net cash generated from/(used in) operating activities			**462,590**		(236,709)

For the year ended 31 December 2017

	Note	2017 HK$'000	2017 HK$'000	2016 HK$'000	2016 HK$'000
Investing activities					
Interest received		**32,670**		21,387	
Payment for purchase of other property, plant and equipment		**(2,842)**		(3,874)	
Payment for purchase of available-for-sale securities		**(64,213)**		(175,149)	
Proceeds from disposal of available-for-sale securities		**538,682**		404,157	
Net repayment from associates		**1,203**		1,632	
Payment for purchase of financial assets designated at fair value through profit or loss		**–**		(20,000)	
Proceeds from disposal of investment properties		**–**		4,000	
Proceeds from disposal of other property, plant and equipment		**3**		–	
Proceeds from disposal of subsidiaries	*22(c)*	**–**		2,309	
Loan to a joint venture		**(10,000)**		(1,354,400)	
Advances to a joint venture		**(24,962)**		(412)	
Proceeds from disposal of financial assets designated at fair value through profit or loss		**22,930**		18,982	
Dividends received from listed investments		**13,377**		23,927	
Dividends received from an associate		**1,050**		–	
Decrease in bank deposits with maturity over three months at acquisition		**–**		283,800	
Net cash generated from/(used in) investing activities			**507,898**		(793,641)
Financing activity					
Dividends paid		**(128,258)**		(128,258)	
Net cash used in financing activity			**(128,258)**		(128,258)
Net increase/(decrease) in cash and cash equivalents			**842,230**		(1,158,608)
Cash and cash equivalents at 1 January			**949,449**		2,108,057
Cash and cash equivalents at 31 December	*22(a)*		**1,791,679**		949,449

The notes on pages 86 to 159 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a joint venture.

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

– investment properties (see note 1(h));

– financial instruments classified as available-for-sale securities (see note 1(f)); and

– financial assets designated at fair value through profit or loss (see note 1(g)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

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

(d) Subsidiaries

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities, being those held for non-trading purpose, are classified as available-for-sale securities. Available-for-sale securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

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

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

(g) Financial assets designated at fair value through profit or loss

Financial assets may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets on a different basis;
- a group of financial assets is managed and its performance evaluated on a fair value basis; or
- the assets include embedded derivatives and such derivatives are required to be recognised separately.

Financial assets designated at fair value through profit or loss are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

(i) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Land	Over the unexpired terms of the leases
Buildings	40 years or over the unexpired terms of the leases, if shorter
Leasehold land classified as held under finance leases	Over the unexpired terms of the leases
Ferry vessels and other crafts	8 to 20 years
Machinery, furniture and other plant and equipment	
– Dry dock and ship lift	30 to 40 years
– Others	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(h)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment of other assets

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

– other property, plant and equipment; and

– investments in subsidiaries and associates in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss 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 profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

(i) Trading stocks

Trading stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Spare parts and consumables

Spare parts and consumables are stated at cost, computed using the weighted average method, less provision for obsolescence.

(iii) Work in progress

Work in progress are construction and repairing in progress at the end of the reporting period and are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings.

(iv) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Properties under development for sale

  The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories (Continued)

(iv) Property development (Continued)

– Completed properties held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated as part of "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on Government Bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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 Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or 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.

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial guarantees issued, provisions and contingent liabilities (Continued)

(ii) Other provisions and contingent liabilities

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

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

(s) Revenue recognition

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

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement and the completion of the properties, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under deposits received.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss 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.

(iii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership.

(iv) Ferry operations and related services

Revenue relating to ferry operations is recognised when the relevant ferry services are provided.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

(v) Travel business

Revenue arising from the travel business is recognised on the completion date of the tours or when the relevant services are provided.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vii) Dividends

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

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

(u) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

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

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

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

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

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

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

(vi) The entity is controlled or jointly controlled by a person identified in note (v)(a).

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

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

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

(w) Segment reporting

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

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 18 and 26 contain information about the assumptions and their risk factors relating to defined benefit retirement obligation and financial instruments. Other key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are as follows:

(a) Valuation of investment properties

In determining the fair value of the investment properties, the Group has considered information from different sources, including a valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to expected future market rents and the appropriate capitalisation rate.

(b) Recognition of deferred tax assets

At 31 December 2017, the Group had recognised deferred tax assets in relation to the unused tax losses amounting to approximately HK$15,554,000 (2016: HK$15,200,000). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which related tax benefits under the deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

3 SEGMENT INFORMATION

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments.

3 SEGMENT INFORMATION (Continued)

Continuing operations:

- Property development: development and sale of properties.

- Property investment: rental income from leasing of properties.

- Ferry, shipyard and related operations: income from operation of dangerous goods vehicular ferry service and ship repairs and maintenance services and sales of goods on cruise vessels.

- Securities investment: dividend, interest and other income from debt and equity securities investments.

Discontinued operation:

- Travel operation: income from management and operation of travel agency services.

The travel operation has been disposed of and classified as discontinued operation and the related information has been set out in note 5.

Segment information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and profit from operations were derived from activities outside Hong Kong.

Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

3 SEGMENT INFORMATION (Continued)

The segment information for the years ended 31 December 2017 and 2016 about these reportable segments is presented below:

(a) Segment revenue

	Total revenue		Elimination of inter-segment revenue		Revenue from external customers	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations:						
Property development	**192,995**	225,980	**–**	–	**192,995**	225,980
Property investment	**132,056**	121,559	**–**	–	**132,056**	121,559
Ferry, shipyard and related operations	**185,597**	156,930	**1,349**	2,525	**184,248**	154,405
Securities investment	**25,760**	31,984	**–**	–	**25,760**	31,984
Others	**77,244**	74,399	**59,421**	60,393	**17,823**	14,006
	613,652	610,852	**60,770**	62,918	**552,882**	547,934
Discontinued operation:						
Travel operation	**–**	62,020	**–**	117	**–**	61,903
	613,652	672,872	**60,770**	63,035	**552,882**	609,837
Analysed by:						
Continuing operations						
Revenue					**493,529**	501,759
Other revenue					**59,353**	46,175
					552,882	547,934
Discontinued operation						
Revenue					**–**	60,520
Other revenue					**–**	1,383
					–	61,903
					552,882	609,837

3 SEGMENT INFORMATION (Continued)

(a) Segment revenue (Continued)

The principal activities of the Group are property development, property investment, ferry, shipyard and related businesses and securities investment after the Group's travel operation had been disposed of during the year ended 31 December 2016 as set out in note 5.

Revenue represents gross income from the sale of properties, sales value of goods delivered to customers, income from services rendered, rental income, interest income and dividend income.

(b) Segment result

	Reportable segment profit	
	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
Property development	**129,211**	150,613
Property investment *(note 3(d))*	**124,989**	124,459
Ferry, shipyard and related operations	**30,279**	13,767
Securities investment	**88,802**	(6,806)
Others *(note 3(e))*	**11,847**	8,994
	385,128	291,027
Discontinued operation:		
Travel operation	**–**	(7,780)
	385,128	283,247

(c) Reconciliation of reportable segment profit – Continuing operations

	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
Reportable segment profit derived from external customers of continuing operations	**385,128**	291,027
Share of profits less losses of associates and a joint venture	**825**	915
Gain on disposal of subsidiaries	**–**	4,561
Profit before taxation from continuing operations in the consolidated statement of profit or loss	**385,953**	296,503

3 SEGMENT INFORMATION (Continued)

(d) The segment result of the "Property investment" included valuation gains on investment properties of HK$56,954,000 (2016: HK$59,305,000).

(e) "Others" mainly comprises interest income, corporate expenses and exchange gains/losses.

(f) Other segment information

	Depreciation and amortisation		Impairment losses		Capital expenditure incurred	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations:						
Property investment	**2**	3	**–**	81	**–**	–
Ferry, shipyard and related operations	**6,848**	6,878	**–**	–	**2,096**	3,763
Securities investment	**–**	–	**–**	46,281	**–**	–
Others	**195**	201	**–**	–	**746**	35
	7,045	7,082	**–**	46,362	**2,842**	3,798
Discontinued operation:						
Travel operation	**–**	171	**–**	–	**–**	76
	7,045	7,253	**–**	46,362	**2,842**	3,874

4 OTHER REVENUE AND NET INCOME

	2017 HK$'000	2016 HK$'000
Other revenue		
Management fee income	**21,227**	19,053
Other interest income	**17,325**	8,527
Air-conditioning charges income	**13,895**	12,028
Other income	**6,906**	6,567
	59,353	46,175
Other net income		
Net profit on disposal of available-for-sale securities	**61,522**	18,928
Net profit/(loss) on disposal of financial assets designated at fair value through profit or loss	**2,930**	(10,040)
Income from sale of spare parts	**1,241**	430
Cost adjustment *(note)*	**106**	34,145
Net profit/(loss) on disposal of other property, plant and equipment	**3**	(1)
Net profit on disposal of investment properties	**–**	2,508
Net exchange (losses)/gains	**(29)**	7
Sundry income	**705**	1,333
	66,478	47,310

Note: Costs adjustment represents the revision of the original construction costs of the properties completed in prior years, confirmed by the surveyors during the year.

5 DISCONTINUED OPERATION

On 14 July 2016, the Group entered into a sale and purchase agreement with Miramar Travel Limited ("Miramar Travel"), a subsidiary of Miramar Hotel and Investment Company, Limited, to dispose of the Group's entire interest of HYFCO Travel Agency Limited and its subsidiary ("HYFCO Travel Group") at an aggregate consideration based on an agreed value of HK$5,000,000.

Upon completion of the disposal of HYFCO Travel Group, the Group's travel operation ceased. Accordingly, the operation of HYFCO Travel Group was classified as discontinued operation.

The disposal of HYFCO Travel Group was completed on 6 October 2016 and the Group's travel operation ceased thereafter.

(a) The results of the discontinued operation for the prior year is as follows:

	Travel operation 2016 *HK$'000*
Revenue	60,520
Direct costs	(52,565)
	7,955
Other revenue	1,383
Other net income	160
Administrative expenses	(5,340)
Other operating expenses	(11,938)
Loss before taxation	(7,780)
Income tax	(103)
Loss for the year	(7,883)

(b) The cash flows of the discontinued operation for the prior year is as follows:

	Travel operation 2016 *HK$'000*
Net cash used in operating activities	(5,216)
Net cash used in investing activities	(76)
Net cash generated from financing activities	3,760
Net cash flows	(1,532)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the amounts as set out below. The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation.

(a) Staff costs:

	2017	2016
	HK$'000	*HK$'000*
Expense recognised in respect of defined benefit retirement plan *(note 18(a)(v))*	**1,346**	1,444
Contributions to defined contribution retirement plan	**2,427**	2,775
Total retirement costs	**3,773**	4,219
Salaries, wages and other benefits	**87,389**	90,915
	91,162	95,134

(b) Other items:

	2017	2016
	HK$'000	*HK$'000*
Amortisation of leasehold land premium	**1,369**	1,369
Depreciation	**5,676**	5,884
Cost of inventories *(note 19(b))*	**56,486**	87,224
Auditor's remuneration		
– audit services	**1,737**	1,692
– other services	**335**	335
Operating lease charges: minimum lease payments		
– property rentals	**2,684**	2,146
Impairment losses on trade and other receivables	**–**	90
Rentals receivable from investment properties less direct outgoings of HK$51,340,000 (2016: HK$46,114,000) *(note)*	**(44,096)**	(42,985)
Rentals receivable from operating leases, other than those relating to investment properties, less direct outgoings of HK$1,731,000 (2016: HK$1,010,000)	**(1,193)**	(2,281)
Interest income	**(35,148)**	(22,531)
Dividend income from listed investments	**(11,663)**	(25,219)

Note: Included contingent rental income of HK$2,324,000 (2016: HK$2,454,000).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2017 HK$'000	2016 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**34,533**	35,356
(Over)/under-provision in respect of prior years	**(175)**	11,691
	34,358	47,047
Deferred tax		
Origination and reversal of temporary differences	**5,303**	4,895
	39,661	51,942

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Government of Hong Kong Special Administrative Region of 75% of the tax payable for the year of assessment 2016/17 subject to a maximum reduction of HK$20,000 for each business (2016: a maximum reduction of HK$20,000 was granted for the year of assessment 2015/16 and was taken into account in calculating the provision for 2016).

In prior years, the Inland Revenue Department ("IRD") raised additional profits tax assessments on a subsidiary of the Group covering the years of assessment from 2001/02 to 2009/10 as the IRD disallowed the deduction of certain capital expenditure incurred by the subsidiary. Notices of objection were filed with the IRD by the subsidiary. In February 2017, the IRD further raised additional profits tax assessments covering the years of assessment from 2010/11 to 2014/15 in respect of such disallowance. Management has sought advice from the Group's tax adviser and has filed a notice of objection against such additional tax assessments.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

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

	2017 HK$'000	2016 HK$'000
Profit before taxation	**385,953**	296,503
Notional tax on profit before taxation, calculated at 16.5%	**63,682**	48,923
Tax effect of non-deductible expenses	**3,364**	21,119
Tax effect of non-taxable income	**(27,099)**	(31,268)
Tax effect of current year's tax losses not recognised	**1,184**	2,568
Tax effect of prior years' unrecognised tax losses utilised this year	**(1,887)**	–
Tax effect of temporary differences on investment properties and other property, plant and equipment	**593**	(1,091)
(Over)/under-provision in respect of prior years	**(176)**	11,691
Actual tax expense	**39,661**	51,942

8 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and Chief Executive's emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and Appendix 16 to the Listing Rules are as follows:

	Directors' fees	
	2017	2016
	HK$'000	*HK$'000*
Executive directors		
Dr. Lam Ko Yin, Colin	**200**	200
Mr. Li Ning	**150**	150
Non-executive directors		
Mr. Au Siu Kee, Alexander	**100**	100
Mr. Lau Yum Chuen, Eddie	**100**	100
Dr. Lee Shau Kee	**100**	100
Mr. Wong Man Kong, Peter	**100**	100
Independent non-executive directors		
Mr. Ho Hau Chong, Norman	**300**	300
Mr. Leung Hay Man	**300**	300
Ms. Wong Yu Pok, Marina	**300**	300
Mr. Wu King Cheong	**300**	300
	1,950	1,950

	Salaries and other emoluments	
	2017	2016
	HK$'000	*HK$'000*
Group General Manager		
Dr. Ho Chi Shing, David	**3,210**	3,120

9 EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

(a) Five highest paid individuals

Of the five individuals with the highest emoluments, one (2016: one) is the chief executive whose emoluments is disclosed in note 8. The aggregate of the emoluments in respect of the remaining four (2016: four) individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other emoluments	**4,100**	3,908
Retirement scheme contributions	**158**	107
	4,258	4,015

The emoluments of the four (2016: four) individuals with the highest emoluments are within the following bands:

HK$	**2017 Number of individuals**	2016 Number of individuals
1,000,000 or below	**2**	2
1,000,001–1,500,000	**2**	2

(b) Emoluments of senior management

Other than the emoluments of directors, chief executive and five highest paid individuals disclosed in note 8 and 9(a), the emoluments of the remaining senior management whose profiles are provided in Directors' and Senior Management's Profile fell within the following bands:

HK$	**2017 Number of individuals**	2016 Number of individuals
500,001–1,000,000	**1**	1

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2017 HK$'000	2016 HK$'000
Interim dividend declared and paid of HK10 cents (2016: HK10 cents) per ordinary share	**35,627**	35,627
Final dividend proposed after the end of the reporting period of HK28 cents (2016: HK26 cents) per ordinary share	**99,757**	92,631
	135,384	128,258

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2017 HK$'000	2016 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK26 cents (2016: HK26 cents) per ordinary share	**92,631**	92,631

11 OTHER COMPREHENSIVE INCOME

Components of other comprehensive income, including reclassification adjustments

	2017 HK$'000	2016 HK$'000
Remeasurement of employee retirement benefits liabilities	**2,125**	649
Available-for-sale securities		
Changes in fair value recognised during the year	**63,391**	2,467
Reclassification adjustments for amounts transferred to profit or loss:		
– profit on disposal	**(62,826)**	(19,877)
– impairment losses	**–**	46,281
Net movement in the securities revaluation reserve during the year recognised in other comprehensive income	**565**	28,871
Other comprehensive income	**2,690**	29,520

Tax effect of the above components of other comprehensive income is HK$Nil.

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$346,292,000 (2016: HK$236,678,000) represented by the profit from continuing operations of HK$346,292,000 (2016: HK$244,561,000) and the loss from discontinued operation of HK$Nil (2016: HK$7,883,000) and 356,273,883 (2016: 356,273,883) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during the years 2017 and 2016, therefore diluted earnings per share are the same as basic earnings per share for both years.

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Buildings HK$'000	Ferry vessels and other crafts HK$'000	Machinery, furniture and others HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interest in leasehold land HK$'000	Total HK$'000
Cost or valuation:							
At 1 January 2016	71,649	118,077	280,840	470,566	2,001,100	159,407	2,631,073
Additions	3,327	–	547	3,874	–	–	3,874
Cost adjustment *(note)*	–	–	–	–	(8,258)	–	(8,258)
Disposals	–	–	(261)	(261)	(1,492)	–	(1,753)
Reduction through disposal of subsidiaries	(1,773)	–	(4,065)	(5,838)	–	–	(5,838)
Valuation gains	–	–	–	–	59,305	–	59,305
At 31 December 2016	73,203	118,077	277,061	468,341	2,050,655	159,407	2,678,403
Representing:							
Cost	73,203	118,077	277,061	468,341	–	159,407	627,748
Valuation	–	–	–	–	2,050,655	–	2,050,655
	73,203	118,077	277,061	468,341	2,050,655	159,407	2,678,403
Accumulated amortisation and depreciation:							
At 1 January 2016	61,459	115,759	231,941	409,159	–	116,269	525,428
Charge for the year	1,247	546	4,091	5,884	–	1,369	7,253
Written back on disposals	–	–	(260)	(260)	–	–	(260)
Written back through disposal of subsidiaries	(1,765)	–	(3,634)	(5,399)	–	–	(5,399)
At 31 December 2016	60,941	116,305	232,138	409,384	–	117,638	527,022
Net book value:							
At 31 December 2016	12,262	1,772	44,923	58,957	2,050,655	41,769	2,151,381

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

	Buildings HK$'000	Ferry vessels and other crafts HK$'000	Machinery, furniture and others HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interest in leasehold land HK$'000	Total HK$'000
Cost or valuation:							
At 1 January 2017	73,203	118,077	277,061	468,341	2,050,655	159,407	2,678,403
Additions	501	1,037	1,304	2,842	–	–	2,842
Cost adjustment *(note)*	–	–	–	–	(24)	–	(24)
Disposals	–	–	(203)	(203)	–	–	(203)
Valuation gains	–	–	–	–	56,954	–	56,954
At 31 December 2017	73,704	119,114	278,162	470,980	2,107,585	159,407	2,737,972
Representing:							
Cost	73,704	119,114	278,162	470,980	–	159,407	630,387
Valuation	–	–	–	–	2,107,585	–	2,107,585
	73,704	119,114	278,162	470,980	2,107,585	159,407	2,737,972
Accumulated amortisation and depreciation:							
At 1 January 2017	60,941	116,305	232,138	409,384	–	117,638	527,022
Charge for the year	1,023	681	3,972	5,676	–	1,369	7,045
Written back on disposals	–	–	(203)	(203)	–	–	(203)
At 31 December 2017	61,964	116,986	235,907	414,857	–	119,007	533,864
Net book value:							
At 31 December 2017	11,740	2,128	42,255	56,123	2,107,585	40,400	2,204,108

Note: Cost adjustment represents the revision of the original construction cost of the properties completed in prior years, confirmed by the surveyor during the years ended 31 December 2016 and 2017.

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2017 categorised into		
	Fair value at 31 December 2017 *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Recurring fair value measurement				
Investment properties	**2,107,585**	**–**	**–**	**2,107,585**

		Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2016 *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Recurring fair value measurement				
Investment properties	2,050,655	–	–	2,050,655

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties (Continued)

(i) Fair value hierarchy (Continued)

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation process

All the Group's investment properties were revalued as at 31 December 2017. The valuations were carried out by an independent firm of surveyors, Cushman & Wakefield, who have among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. The management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

(ii) Information about Level 3 fair value measurements

The fair values of investment properties were determined using income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of properties after expiry of the current leases except for an investment property which was determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

Below is a table which presents the significant unobservable inputs:

Income capitalisation approach

	Range of capitalisation rates		Range of occupancy rates	
	2017	2016	**2017**	2016
	%	%	**%**	%
Retail	**3.5% – 4.75%**	3.5% – 5%	**89% – 100%**	74% – 100%
Car park	**4.63% – 7%**	4.75% – 7%	**51% – 96%**	36% – 97%

Market comparison approach

	Market unit sales price	
	2017	2016
	HK$/sq. ft.	*HK$/sq. ft.*
Godown	**579 – 870**	575 – 593

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

The fair value measurement of investment properties is positively correlated to the occupancy rate and market unit sales price and negatively correlated to the capitalisation rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2017	2016
	HK$'000	*HK$'000*
Investment properties		
At 1 January	**2,050,655**	2,001,100
Cost adjustment	**(24)**	(8,258)
Disposal	**–**	(1,492)
Valuation gains	**56,954**	59,305
At 31 December	**2,107,585**	2,050,655

Fair value adjustment of investment properties is recognised in the line item "valuation gains on investment properties" on the face of the consolidated statement of profit or loss.

All the gains recognised in profit or loss for the year arise from the properties held at the end of the reporting period.

(b) The analysis of the net book value of all the properties, which are held in Hong Kong, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Medium-term leases	**2,159,725**	2,104,686

13 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to eight years, with an option to renew the lease after that date at which time all terms are renegotiated. Certain of the leases include contingent rentals calculated with reference to the revenue of tenants.

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

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

	2017	2016
	HK$'000	*HK$'000*
Within 1 year	**66,208**	61,690
After 1 year but within 5 years	**52,318**	69,791
After 5 years	**9,200**	14,159
	127,726	145,640

14 INTEREST IN SUBSIDIARIES

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

		Proportion of ownership interests		
	Particulars of issued and paid up capital	Held by the Company	Held by subsidiaries	Principal activities
HYFCO Development Company, Limited	1,200,003 shares	100%	–	Investment holding
The Hong Kong Shipyard Limited	170,000 shares	100%	–	Shipbuilding and repairs
HYFCO Trading and Investments Company Limited	2 shares	100%	–	Trading
HYFCO Estate Management & Agency Limited	2,500,000 shares	100%	–	Property management
The Hongkong and Yaumati Ferry Company Limited	1,000,000 shares	100%	–	Ferry operations
Galaxy Hotel Management Company Limited	1,000,000 shares	–	100%	Floating restaurant business
Genius Star Development Limited	2 shares	100%	–	Property investment
Pico International Limited	6,000,000 shares	100%	–	Investment holding
Hong Kong Ferry Finance Company Limited	2 shares	100%	–	Funding for group companies
Thommen Limited	2 shares	100%	–	Investment holding
Lenfield Limited	2 shares	100%	–	Property development, investment and financing
HKF Property Investment Limited	2 shares	100%	–	Property investment
Join Galaxy Limited	2 shares	–	100%	Property financing
Merry World Assets Limited	50,000 shares	100%	–	Investment holding
Jet Legend Limited	1 share	100%	–	Property development and financing
World Light Limited	1 share	100%	–	Property development, investment and financing
Well Dynamic Limited	1 share	100%	–	Property development, investment and financing

All the subsidiaries listed above are incorporated in Hong Kong except for Merry World Assets Limited which is incorporated in the British Virgin Islands.

15 INTEREST IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Share of net assets	**147**	344
Amounts due from associates	**15,756**	16,899
	15,903	17,243
Less: impairment loss	**(6,794)**	(6,794)
	9,109	10,449

Except for the amount advanced to 2OK Company Limited ("2OK") which is interest-bearing at Hong Kong dollar prime rate minus 3% (2016: Hong Kong dollar prime rate minus 3%) per annum, as disclosed in note 30(b)(ii), all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. All the amounts due from associates are not expected to be recovered within one year.

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

	Particulars of issued and paid up capital	Proportion of ownership interest held by subsidiaries	Principal activities
2OK	10 ordinary shares	50%	Property financing
Authian Estates Limited	5,000 A shares 5,000 B shares	50%	Property investment
Winwide Limited	100 ordinary shares	30%	Trading

All of the associates are incorporated and operate in Hong Kong.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Aggregate information of associates that are not individually material:

	2017 HK$'000	2016 HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**147**	344
Aggregate amounts of the Group's share of those associates'		
Profit for the year	**926**	920
Total comprehensive income	**926**	920

16 INTEREST IN A JOINT VENTURE

	2017 HK$'000	2016 HK$'000
Share of net liabilities	(105)	(5)
Loan to a joint venture	1,364,400	1,354,400
	1,364,295	1,354,395

The loan to a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and recoverable on demand. The balance is not expected to be recovered within one year. During the years and as at 31 December 2017 and 2016, the balance did not bear any interest.

Details of the group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued capital	Proportion of ownership interest held by subsidiaries	Principal activity
Win Standard Enterprises Limited	Incorporated	Hong Kong	10,000 ordinary shares	50%	Property development

The joint venture is an unlisted corporate entity whose quoted market price is not available.

16 INTEREST IN A JOINT VENTURE (Continued)

Summarised financial information of the joint venture, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

Gross amounts of the joint venture's	**2017** ***HK$'000***	2016 *HK$'000*
Current assets	**2,780,597**	2,709,673
Non-current assets	**–**	–
Current liabilities	**(52,007)**	(882)
Non-current liabilities	**(2,728,800)**	(2,708,800)
Equity	**(210)**	(9)
Included in the above assets and liabilities:		
Cash and cash equivalents	**–**	–
Current financial liabilities (excluding trade and other payables and provisions)	**(50,757)**	(809)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(2,728,800)**	(2,708,800)
Revenue	**–**	–
Loss for the year	**(201)**	(9)
Other comprehensive income	**–**	–
Total comprehensive income	**(201)**	(9)

No depreciation and amortisation, interest income, income expenses and income tax expenses is included in the above profit.

	2017 ***HK$'000***	2016 *HK$'000*
Reconciled to Group's interest in the joint venture		
Gross amounts of the joint venture's net liabilities	**(210)**	(9)
Group's effective interest	**50%**	50%
Group's share of the joint venture's net liabilities	**(105)**	(5)

17 AVAILABLE-FOR-SALE SECURITIES

	2017 HK$'000	2016 HK$'000
Listed debt securities outside Hong Kong	**176,306**	183,056
Listed equity securities		
– in Hong Kong	**–**	454,259
– outside Hong Kong	**–**	24,227
	–	478,486
	176,306	661,542
Market value of listed securities at 31 December	**176,306**	661,542
Fair value of individually impaired available-for-sale securities	**–**	56,705

As at 31 December 2016, certain of the Group's listed available-for-sale equity securities were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses of HK$46,281,000 on these investments were recognised in profit or loss in accordance with the policy set out in note 1(k)(i). All the Group's listed available-for-sale equity securities have been disposed of during the year ended 31 December 2017.

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong), which covers 11.2% (2016: 11.7%) of the Group's employees. The plan is administered by independent trustees with their assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuation of the plan was at 31 December 2017 and was prepared by qualified staff of Willis Towers Watson, who are members of recognised actuarial bodies, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are fully (2016: 100%) covered by the plan assets held by the trustees.

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Information about the plan is disclosed below:

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Present value of wholly or partly funded obligations	**(37,109)**	(35,312)
Fair value of plan assets	**34,085**	30,844
	(3,024)	(4,468)

The plan assets do not include any share issued by the Company or any property occupied by the Group.

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expect to pay HK$685,000 in contributions to defined benefit retirement plan in 2018.

(ii) Plan assets consist of the following:

	2017	2016
Equity securities	**41.8%**	39.5%
Fixed deposits	**58.2%**	60.5%
Total	**100.0%**	100.0%

All of the equity securities have quoted prices in active markets.

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(iii) Movements in the present value of the defined benefit obligations:

	2017 HK$'000	2016 HK$'000
At 1 January	**35,312**	41,039
Remeasurements:		
– Actuarial loss/(gain) arising from changes in financial assumptions	**273**	(767)
– Actuarial gain arising from changes in experience	**(63)**	(196)
– Actuarial (gain)/loss arising from change in demographic assumptions	**(3)**	16
	207	(947)
Current service cost	**1,160**	1,331
Interest cost	**633**	552
Benefits paid by the plan	**(203)**	(4,647)
Curtailments	**–**	(63)
Settlement	**–**	(1,953)
At 31 December	**37,109**	35,312

(iv) Movements in plan assets:

	2017 HK$'000	2016 HK$'000
At 1 January	**30,844**	36,709
Interest income	**559**	493
Return greater/(less) than discount rate	**2,332**	(298)
Benefits paid by the plan	**(203)**	(4,647)
Administrative expenses paid	**(112)**	(117)
Contributions paid to the plan	**665**	657
Settlement	**–**	(1,953)
At 31 December	**34,085**	30,844

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2017 HK$'000	2016 HK$'000
Current service cost	1,160	1,331
Past services cost of curtailments	–	(63)
Net interest on net defined benefit liability	74	59
Administrative expenses paid	112	117
Total amounts recognised in profit or loss	1,346	1,444
Actuarial loss/(gain)	207	(947)
Return on plan assets, excluding interest income	(2,332)	298
Total amounts recognised in other comprehensive income	(2,125)	(649)
Total defined benefit costs	(779)	795

The current service cost, the net income on defined benefit liability/asset and the administrative expenses paid are recognised in the following item in the consolidated statement of profit or loss:

	2017 HK$'000	2016 HK$'000
Administrative expenses	1,346	1,444

18 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2017	2016
Discount rate	**1.7%**	1.8%
Long-term salary increase rate	**3.5%**	3.5%

The below analysis shows how the net defined benefit liability would have (increased)/decreased as a result of 0.25% change in the significant actuarial assumptions:

	Increase in 0.25%		**Decrease in 0.25%**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Discount rate	**677**	713	**(697)**	(735)
Future salary	**(649)**	(684)	**634**	666

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plan

The Group also operates a 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 and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2017 HK$'000	2016 HK$'000
Property development		
Properties under development for sale	**442,712**	326,518
Completed properties held for sale	**99,973**	150,429
	542,685	476,947
Other operations		
Trading stocks	**1,975**	1,596
Spare parts and consumables	**1,080**	1,462
Work in progress	**13,750**	7,157
	16,805	10,215
	559,490	487,162

The above properties are situated in Hong Kong and held under medium-term leases.

All of the inventories are expected to be recovered within one year.

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

	2017 HK$'000	2016 HK$'000
Carrying amount of inventories sold	**56,486**	87,224

20 TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**356,177**	332,960
Less: allowance for doubtful debts	**(2,151)**	(2,151)
	354,026	330,809
Cash held by stakeholders	**120,675**	457,828
Other receivables and prepayments	**190,538**	64,720
Amount due from a joint venture	**25,374**	412
	690,613	853,769

All of the trade and other receivables except for instalment receivables of HK$220,829,000 (2016: HK$219,596,000) are expected to be recovered or recognised as expense within one year. Included in the trade and other receivables are amounts due from related companies of HK$54,889,000 (2016: HK$72,405,000) which are unsecured, interest-free and have no fixed terms of repayment.

The amount due from a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and has no fixed terms of repayment. During the years and as at 31 December 2017 and 2016, the balance did not bear any interest.

(a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis based on due date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Current	**321,335**	289,963
1 to 3 months overdue	**27,137**	32,303
More than 3 months but less than 12 months overdue	**3,518**	8,320
More than 12 months overdue	**2,036**	223
	354,026	330,809

Trade debtors are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted. Further details on the Group's credit policy are set out in note 26(a).

20 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 1(k)(i)).

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

	2017 *HK$'000*	2016 *HK$'000*
At 1 January	**2,151**	2,070
Impairment losses recognised	**–**	90
Uncollectible amount written off	**–**	(9)
At 31 December	**2,151**	2,151

At 31 December 2017, the Group's trade debtors of HK$2,151,000 (2016: HK$2,151,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that recovery of the receivables is considered doubtful. Consequently, specific allowances for doubtful debts of HK$2,151,000 (2016: HK$2,151,000) were recognised.

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	2017 *HK$'000*	2016 *HK$'000*
Neither overdue nor impaired	**321,335**	289,963
1 to 3 months overdue	**27,137**	32,303
More than 3 months but less than 12 months overdue	**3,518**	8,320
More than 12 months overdue	**2,036**	223
	32,691	40,846
	354,026	330,809

20 TRADE AND OTHER RECEIVABLES (Continued)

(c) Trade debtors that are not impaired (Continued)

Receivables that were neither overdue nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

21 OTHER FINANCIAL ASSETS

	2017 **HK$'000**	2016 HK$'000
Financial assets designated at fair value through profit or loss	**–**	20,000

The balance as at 31 December 2016 represented investments in equity-linked notes and index-linked note. These investment were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss with subsequent changes in fair values recognised in profit or loss. During the year ended 31 December 2017, the Group had redeemed all these investments.

22 CASH AND BANK BALANCES

(a)

	2017 **HK$'000**	2016 HK$'000
Deposits with banks and other financial institutions	**1,771,616**	939,251
Cash at bank and in hand	**20,063**	10,198
	1,791,679	949,449

Included in cash and bank balances are the following amounts denominated in a currency other than Hong Kong dollars:

	2017		2016	
		'000		'000
United States dollars	**USD**	**4**	USD	4
Renminbi	**RMB**	**44**	RMB	44

22 CASH AND BANK BALANCES (Continued)

(b) Major non-cash transactions

During the year ended 31 December 2017, the Group has payable in relation to additions of properties under development for sale of HK$5,444,000 (2016: HK$35,892,000) and additions of available-for-sale securities of HK$Nil (2016: HK$61,352,000) arising from the redemption of other financial assets upon maturity. These additions have no cash flow impact to the Group.

(c) Disposal of subsidiaries

(i) On 6 October 2016, the Group completed the disposal of its 100% equity interest in HYFCO Travel Group to Miramar Travel for a total consideration of HK$4,587,000. This resulted in a net gain on disposal of subsidiaries of $4,561,000.

(ii) Net assets disposed of:

	2016 *HK$'000*
Other property, plant and equipment	439
Trade and other receivables	10,042
Cash and cash equivalents	2,278
Trade and other payables	(12,733)
Net assets	26
Net gain on disposal of subsidiaries	4,561
Total consideration	4,587

Satisfied by:

	2016 *HK$'000*
Cash	4,587

(iii) Analysis of net cash inflow in respect of the disposal of subsidiaries:

	2016 *HK$'000*
Cash consideration received	4,587
Cash disposed of	(2,278)
	2,309

23 TRADE AND OTHER PAYABLES

All of the trade and other payables except for an amount of HK$10,743,000 (2016: HK$11,453,000) are expected to be settled or recognised as income within one year. Included in the trade and other payables are amounts due to related companies of HK$77,154,000 (2016: HK$109,201,000) which are unsecured, interest-free and repayable within 30-45 days or have no fixed terms of repayment.

Included in trade and other payables are trade payables with the following ageing analysis based on due date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Due within 1 month or on demand	98,595	125,562
Due after 1 month but within 3 months	1,274	1,341
Due after 3 months but within 12 months	–	–
More than 12 months	9	9
	99,878	126,912

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax (recoverable)/payable in the consolidated statement of financial position represents:

	2017 HK$'000	2016 HK$'000
Provision for Hong Kong Profits Tax for the year	34,533	35,356
Provisional Profits Tax paid	(33,088)	(23,720)
	1,445	11,636
Balance of Hong Kong Profits Tax (recoverable)/payable relating to prior years	(13,075)	7,478
	(11,630)	19,114

Represented by:

	2017 HK$'000	2016 HK$'000
Tax recoverable	(27,860)	(22,174)
Tax payable	16,230	41,288
	(11,630)	19,114

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Temporary differences from investment properties and other property, plant and equipment	Future benefit of tax losses	Intra-group interest capitalised in properties under development	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	45,991	(1,634)	(2,953)	(1,588)	39,816
Charged/(credited) to profit or loss:					
– continuing operations *(note 7(a))*	4,283	(976)	–	1,588	4,895
– discontinued operation	–	103	–	–	103
At 31 December 2016 and 1 January 2017	**50,274**	**(2,507)**	**(2,953)**	**–**	**44,814**
Charged/(credited) to profit or loss *(note 7(a))*	**5,106**	**(61)**	**258**	**–**	**5,303**
At 31 December 2017	**55,380**	**(2,568)**	**(2,695)**	**–**	**50,117**

	2017	2016
	HK$'000	*HK$'000*
Represented by:		
Net deferred tax asset recognised in the consolidated statement of financial position	**(5,036)**	(5,248)
Net deferred tax liability recognised in the consolidated statement of financial position	**55,153**	50,062
	50,117	44,814

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised the following deferred tax assets in respect of deductible temporary differences and cumulative tax losses as it is not probable that future taxable profits against which the deductible temporary differences and tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

	2017		2016	
	Deductible temporary differences/ tax losses *HK$'000*	**Deferred tax assets** *HK$'000*	Deductible temporary differences/ tax losses *HK$'000*	Deferred tax assets *HK$'000*
(i) Excess of tax written down values over accounting carrying values of other property, plant and equipment	**467**	**77**	640	106
(ii) Tax losses	**119,297**	**19,684**	92,704	15,402
	119,764	**19,761**	93,344	15,508

25 CAPITAL AND RESERVES

(a) Movements in components of equity

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

The Company

	Note	Share capital HK$'000 (note 25(b))	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2016		1,754,801	1,179,986	2,934,787
Changes in equity for 2016:				
Loss for the year		–	(13,177)	(13,177)
Other comprehensive income		–	649	649
Total comprehensive income		–	(12,528)	(12,528)
Dividends approved in respect of the previous year	10	–	(92,631)	(92,631)
Dividends declared in respect of the current year	10	–	(35,627)	(35,627)
Balance at 31 December 2016 and 1 January 2017		**1,754,801**	**1,039,200**	**2,794,001**
Changes in equity for 2017:				
Profit for the year		**–**	**15,308**	**15,308**
Other comprehensive income		**–**	**2,125**	**2,125**
Total comprehensive income		**–**	**17,433**	**17,433**
Dividends approved in respect of the previous year	10	**–**	**(92,631)**	**(92,631)**
Dividends declared in respect of the current year	10	**–**	**(35,627)**	**(35,627)**
Balance at 31 December 2017		**1,754,801**	**928,375**	**2,683,176**

25 CAPITAL AND RESERVES (Continued)

(b) Share capital

	2017		2016	
	Number of shares	HK$'000	Number of shares	HK$'000
Ordinary shares, issued and fully paid:				
At 1 January/31 December	**356,273,883**	**1,754,801**	356,273,883	1,754,801

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

(c) Nature and purpose of reserves

(i) Securities revaluation reserve

The securities revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies adopted for the revaluation of securities (see note 1(f)).

(ii) Other capital reserves

The other capital reserves comprise the unrealised profit on inter-company interest capitialised under investment properties.

(d) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK$461,158,000 (2016: HK$571,935,000). After the end of the reporting period the directors proposed a final dividend of HK28 cents (2016: HK26 cents) per ordinary share, amounting to HK$99,757,000 (2016: HK$92,631,000) (note 10). This dividend has not been recognised as a liability at the end of the reporting period.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern and ensure that it maintains a healthy capital ratio in order to support its business and provide returns for shareholders.

The Group actively and regularly reviews and manages its capital structure under the policy of prudent financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties which enable management to assess their recoverability and to minimise the exposure to credit risk. In respect of other trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is not influenced by the individual characteristics of each customer as the Group does not have a certain concentration of credit risk of the total trade and other receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial positions. Except for the financial guarantees given by the Group as set out in note 29, the Group does not provide any other guarantees to third parties which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

The treasury functions of the Group is centralised at the head office. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loan to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates at the end of the reporting period) and the earliest date the Group can be required to pay:

	2017 Contractual undiscounted cash outflow						2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	**732,577**	**6,842**	**2,341**	**1,560**	**743,320**	**743,320**	618,253	6,815	2,891	1,747	629,706	629,706

(c) Currency risk

The Group has no significant exposure to foreign currency risk given its large asset base and operational cash flow are primarily denominated in Hong Kong dollars.

(d) Equity price risk

The Group is exposed to equity price change arising from equity investments classified as available-for-sale securities (see note 17) and financial assets designated at fair value through profit or loss (see note 21). All of these investments are listed and have been disposed of during the year ended 31 December 2017.

Listed investments held in the available-for-sale securities portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

Financial assets designated at fair value through profit or loss are subject to changes in market prices. The exposure to price changes is managed by closely monitoring the changes in market conditions that may have an impact on the market prices or factor affecting the value of these financial assets.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Equity price risk (Continued)

Sensitivity analysis

At 31 December 2017, it is estimated that an increase/decrease of 10% (2016: 10%) in the market prices of the investments in available-for-sale securities, with all other variables held constant would have increased/decreased the securities revaluation reserve by approximately HK$17,631,000 (2016: HK$66,154,000).

At 31 December 2016, it is estimated that an increase/decrease of 10% in the market prices of the underlying investments of the financial assets designated at fair value through profit or loss, with all other variable held constant would have increased/decreased the profit after tax and retained profits by approximately HK$2,000,000. All financial assets designated at fair value have been disposed of during the year ended 31 December 2017.

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant.

(e) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

(i) Financial assets measured at fair value (Continued)

Fair value hierarchy (Continued)

	Fair value at 31 December 2017 *HK$'000*	Fair value measurements as at 31 December 2017 categorised into Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Recurring fair value measurements				
Financial assets:				
Available-for-sale securities:				
– Listed	**176,306**	**–**	**–**	**176,306**

	Fair value at 31 December 2016 *HK$'000*	Fair value measurements as at 31 December 2016 categorised into Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Recurring fair value measurement				
Financial assets:				
Available-for-sale securities:				
– Listed	661,542	661,542	–	–
Financial assets designated at fair value through profit or loss	20,000	–	20,000	–

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of financial assets designated at fair value through profit or loss is based on the pricing model taking into account the market closing prices of the underlying equity securities and/or index, volatilities, correlations and interest rates, which are observable market data, at the end of the reporting period.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

27 OPERATING LEASE COMMITMENTS

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	2,141	1,564
After 1 year but within 5 years	1,399	1,830
	3,540	3,394

The Group leases a number of retail outlets and offices under operating leases. The leases typically run for an initial period of one to three years. Lease payments are usually fixed during the period of the leases. None of the leases includes contingent rentals.

28 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017 HK$'000	2016 HK$'000
Contracted for	18,267	131,693
Authorised but not contracted for	891	891
	19,158	132,584

29 CONTINGENT LIABILITIES

Financial guarantees issued

At 31 December 2017, the Company has issued the following guarantees:

(a) guarantees to certain suppliers in respect of granting or giving credit facilities to its wholly-owned subsidiaries; and

(b) guarantees to banks in respect of banking facilities granted to its wholly-owned subsidiaries and a joint venture.

Under the guarantees, the Company is liable to the amount due from the subsidiaries and the joint venture to these respective parties in the event of any default and its liability shall at no time exceed the sum stated on the letters of guarantee.

At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued above is the outstanding amount due to the relevant parties by its wholly-owned subsidiaries and the joint venture, being HK$90,000 (2016: HK$110,000).

The Company has not recognised any deferred income in respect of the guarantees issued as its fair value cannot be reliably measured using observable market data and its transaction price was HK$Nil.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to certain of the Company's directors, chief executive and the highest paid employees as disclosed in notes 8 and 9 respectively, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Short-term employee benefits	**5,857**	5,617
Post-employment benefits	**115**	107
	5,972	5,724

Total remuneration is included in "staff costs" (see note 6(a)).

(b) Other material related party and connected transactions

(i) In 1999, the Group entered into a development agreement (the "Agreement") with Henderson Land Development Company Limited ("HLD") and two wholly-owned subsidiaries of HLD ("HLD Sub 1" and "HLD Sub 2"), whereby HLD Sub 1 and HLD Sub 2 acquired the right to 50% of any proceeds from the future sale of the residential portion of the redevelopment of Metro Harbour View, Kowloon Inland Lot No. 11127 (the "MHV Property") for a consideration of HK$1,500,000,000.

As part of the Agreement, HLD Sub 1 and HLD Sub 2 agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the MHV Property. At 31 December 2017, an amount of HK$276,000 (2016: HK$268,000) remained unpaid and was included in trade and other receivables.

In February 2017, the Group entered into a deed of novation (the "Deed of Novation") with HLD, HLD Sub 1 and HLD Sub 2 pursuant to which HLD Sub 1 transferred and assigned unto HLD Sub 2, and HLD Sub 2 took and assumed all of the rights and obligations of the HLD Sub 1 under the Agreement subject to the terms and conditions as stated in the Deed of Novation. The Deed of Novation was supplemental to the Agreement.

(ii) In December 2001, a wholly-owned subsidiary of the Company acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of the MHV Property. HLD through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK at 31 December 2017. During the year, the Group received management and administrative fees in the total of HK$100,000 (2016: HK$125,000) from 2OK. The Group and HLD Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amounts advanced. During the year, the Group received interest amounting to HK$91,000 (2016: HK$62,000) from 2OK. At 31 December 2017, the amount advanced by the Group totalling HK$4,031,000 (2016: HK$5,236,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(iii) In December 2002, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub A") as the leasing and promotion agent of the commercial arcade of the MHV Property, Metro Harbour Plaza ("MHP"), for an initial term of two years at the remuneration of 5% of the monthly rental income from MHP and such agreement shall thereafter be renewable on the same terms from year to year until terminated by either party by giving three months' prior notice in writing. An amount of HK$2,047,000 (2016: HK$2,025,000) was charged to the Group for the year. At 31 December 2017, an amount of HK$1,047,000 (2016: HK$1,020,000) remained unpaid and was included in trade and other payables.

As the aforementioned agreement was renewable on the yearly basis until terminated by either party, the Group had monitored the receipt of the funds during the year.

(iv) In May 2006, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub C") as the main contractor for a fee of 5% on all works relating to the development of Shining Heights, Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Group together with the 5% fee were subject to each annual ceiling of HK$16,000,000 up to the period end of 31 March 2009. In September 2009, the prime cost contract extension letter was signed which all the terms and conditions remain unchanged except to extend the period of payment for the respective ceiling of HK$5,500,000 and HK$6,500,000 for the nine months ended 31 December 2009 and for the year ended 31 December 2010 respectively.

During the years ended 31 December 2017 and 2016, there were no change in cost estimates. At 31 December 2017, an amount of HK$2,294,000 (2016: HK$2,294,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(v) In March 2011, the Group appointed another wholly-owned subsidiary of HLD ("HLD Sub D") as the main contractor for a fee of 5% on all works relating to the development of Green Code at No. 1 Ma Sik Road, Fanling, New Territories, Hong Kong (formerly known as Fanling Sheung Shui Town Lot No. 177) (the "Fanling Property"). The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee were subject to the total ceilings of the respective years.

In October 2014, the Group entered into a Fanling Prime Cost Contract Extension Letter with HLD Sub D to extend the period of payment of fees for the respective ceilings of HK$6,800,000 and HK$19,000,000 for the period from 1 June 2014 to 31 December 2014 and for the year ended 31 December 2015 respectively. During the year, there was no change in cost estimates. For the year ended 31 December 2016, as a result of change in the latest cost estimates, an amount of HK$36,266,000 and HK$1,813,000, represented a corresponding adjustment in fees, were credited to the Group in relation to the superstructure work of the development and the 5% fee on all works relating to the development of the Fanling Property. At 31 December 2017, an amount of HK$14,725,000 (2016: HK$14,725,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

Under the term of Fanling Prime Cost Contract Extension Letter, the contract expired in December 2015.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(vi) In September 2013, the Group appointed HLD Sub A as the project manager of the development of Hung Hom Inland Lot No. 555, Kowloon, Hong Kong located at the junction of Gillies Avenue South and Bulkeley Street, Hung Hom, Kowloon, Hong Kong (the "Hung Hom Property") for a term of three years commencing from 5 September 2013 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the Hung Hom Property and other lump sum fees for supplementary services subject to the respective ceilings for the years ended 31 December 2013, 31 December 2014, 31 December 2015 and 31 December 2016 of HK$1,300,000, HK$2,300,000, HK$2,300,000 and HK$600,000 respectively (the "Hung Hom Project Management Agreement"). A total fee of HK$595,000 was charged to the Group and the balance had been repaid during the year ended 31 December 2016. Pursuant to the terms of the Hung Hom Project Management Agreement, the appointment of HLD Sub A as project manager expired in September 2016. Accordingly, no fee has been charged during the year ended 31 December 2017.

(vii) In December 2013, the Group appointed another wholly-owned subsidiary of HLD ("HLD Sub B") as the sales manager of the development of the Hung Hom Property for a term of three years commencing from 1 January 2014 in consideration for a fee of 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by a third party sales agent) were subject to the annual ceilings for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 of HK$2,500,000, HK$1,000,000 and HK$1,500,000 respectively (the "Hung Hom Sales Management Agreement"). A total fee of HK$38,000 was charged to the Group during the year ended 31 December 2016. Pursuant to the terms of the Hung Hom Sales Management Agreement, the appointment of HLD Sub B as sales manager expired in December 2016.

In January 2017, the Group entered into a letter agreement with HLD Sub B and HLD Sub B continued to act as the sales manager of the Group in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further period of one year commencing from 1 January 2017 and ended on 31 December 2017 (the "Letter Agreement"). The aggregate amount of fees receivable by HLD Sub B as remuneration under the appointment were subject to a ceiling of HK$1,000,000 for the year ended 31 December 2017.

No fee has been charged during the year ended 31 December 2017. At 31 December 2017, no amount remained unpaid (2016: HK$Nil). Pursuant to the terms of the Letter Agreement, the appointment of HLD Sub B as sales manager expired in December 2017.

In December 2017, the Group entered into a second letter agreement with HLD Sub B and HLD Sub B continued to act as the sales manager of the Group in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further term of three years commencing from 1 January 2018 to 31 December 2020 (the "Term of Appointment"). The aggregate amount of fees receivable by HLD Sub B as remuneration under the appointment shall be subject to a ceiling of HK$1,000,000 per annum during the Term of Appointment.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(viii) In March 2014, the Group as landlord and an indirectly non-wholly owned subsidiary of HLD as tenant agreed to renew the tenancy agreement in respect of certain shops and spaces of MHP (the "Tenancy Renewal Agreement"). Pursuant to the Tenancy Renewal Agreement, the tenant agreed to take the lease for a term of three years commencing from 1 July 2014 at a monthly rental of HK$470,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business conducted over HK$120,000,000 which shall be payable monthly in arrears. The Group also entered into (i) an External Wall Signage Licence Agreement for three external wall signages at MHP; and (ii) an Entrance Signage Licence Agreement for one signage at the entrance of MHP for a term of three years commencing from 1 July 2014. Total annual licence fees payable under the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are HK$22,000 and HK$8,000 respectively. The Tenancy Renewal Agreement and two Licence Agreements were subject to annual caps of respective years. Under the Tenancy Renewal Agreement and two Licence Agreements, each of their terms expired in June 2017.

In June 2017, the indirectly non-wholly owned subsidiary of HLD as tenant and HLD Sub A (as agent of the Group) as landlord entered into a renewal offer letter A (the "Renewal Offer Letter A") in respect of the leasing of Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, MHP ("Premises 1") and Bridge area on Level 1, MHP ("Premises 2") for a term of one year commencing from 1 July 2017 to 30 June 2018 at a monthly rental of HK$244,000 for Premises 1 and HK$6,000 for Premises 2 together with other ancillary expenses and a turnover rent of 7% of the excess (if any) of such annual gross turnover of the tenant's business conducted at Premises 1 and Premises 2 over HK$50,000,000, which shall be payable monthly in arrears.

In June 2017, the indirectly non-wholly owned subsidiary of HLD as tenant and HLD Sub A (as agent of the Group) as landlord entered into a renewal offer letter B (the "Renewal Offer Letter B") in respect of the leasing of Shop Nos. 127-161 and corridors and toilets on Level 1, MHP ("Premises 3") for a term of three years commencing from 1 July 2017 to 30 June 2020 at a monthly rental of HK$238,000 for Premises 3 together with other ancillary expenses and a turnover rent of 7% of the excess (if any) of such annual gross turnover of the tenant's business conducted at Premises 3 over HK$70,000,000, which shall be payable monthly in arrears.

The aggregate amounts of rentals and other ancillary expenses receivable under the Renewal Offer Letter A and the Renewal Offer Letter B are subject to the annual ceilings for the period from 1 July 2017 to 31 December 2017, for the years ending 31 December 2018 and 31 December 2019 and for the period from 1 January 2020 to 30 June 2020 of HK$7,500,000, HK$11,300,000, HK$8,000,000 and HK$4,300,000 respectively.

During the year, an amount of HK$12,271,000 (2016: HK$11,635,000), being aggregate rental and fees receivable under the aforementioned lease and licences agreements in March 2014 and June 2017, was credited to the Group.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(ix) In October 2015, the Group appointed HLD Sub A as the project manager of the comprehensively planned development consisting of residential component together with ancillary supporting facilities at 208 Tung Chau Street, Sham Shui Po, Kowloon, Hong Kong (the "TCS Property" or the "Proposed TCS Development") for a term of three years commencing from 2 November 2015 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the Proposed TCS Development, subject to the annual ceilings for the years ended 31 December 2015, 31 December 2016 and 31 December 2017 of HK$1,500,000, HK$4,100,000 and HK$1,600,000, and for the year ending 31 December 2018 of HK$1,500,000 respectively. A total fee of HK$688,000 (2016: HK$688,000) was charged to the Group during the year. At 31 December 2017, an amount of HK$688,000 (2016: HK$688,000) remained unpaid and was included in trade and other payables.

(x) In October 2015, the Group appointed HLD Sub C as the main contractor of the Proposed TCS Development for a fee of 5% on all works of the Proposed TCS Development. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee subject to the annual ceilings for the years ended 31 December 2015, 31 December 2016 and 31 December 2017 of HK$1,260,000, HK$19,990,000 and HK$16,740,000, and for the year ending 31 December 2018 of HK$970,000 respectively. In accordance with the contract entered into the Group, an amount of HK$112,285,000 (2016: HK$80,595,000), of which HK$12,345,000 (2016: HK$15,955,000) being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and the 5% fee, was charged by the main contractor for the superstructure work of the development of the TCS Property during the year. At 31 December 2017, an amount of HK$33,840,000 (2016: HK$39,283,000) remained unpaid and was included in trade and other payables.

(xi) In October 2015, the Group appointed HLD Sub B as the sales manager of the Proposed TCS Development for a term of three years commencing from the date of the first initial sale of any residential units of the TCS Property in consideration of a sales fee of 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by third party sales agent(s)) subject to the annual ceilings for the years ended 31 December 2015, 31 December 2016 and 31 December 2017 of HK$700,000, HK$2,000,000 and HK$600,000, and for the year ending 31 December 2018 of HK$200,000 respectively. No fee has been charged to the Group during the year ended 31 December 2017. A total fee of HK$216,000 was charged to the Group during the year ended 31 December 2016. At 31 December 2017, an amount of HK$Nil (2016: HK$96,000) remained unpaid and was included in trade and other payables.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(xii) In October 2015, the Group entered into a letter agreement with HLD Sub B and appointed HLD Sub B as the agent of the Group to lease certain shops and spaces of Mira Place One (formerly known as Miramar Shopping Centre) ("Premises 4") for the marketing services of the TCS Property for the period from 5 November 2015 to the earlier of 4 January 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the respective ceilings of HK$2,000,000 for the period from 5 November 2015 to 31 December 2015 and HK$3,600,000 for the period from 1 January 2016 to 4 January 2017. The letter agreement expired in January 2017.

In January 2017, the Group entered into a second letter agreement with HLD Sub B and HLD Sub B continued to act as the agent of the Group to lease the Premises 4 for use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 January 2017 to the earlier of 4 May 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the ceiling of HK$1,700,000. The second letter agreement expired in May 2017.

A total fee of HK$988,000 (2016: HK$3,092,000) was charged to the Group during the year. At 31 December 2017, an amount of HK$997,000 (2016: HK$1,920,000) remained unpaid and was included in trade and other payables.

(xiii) In May 2017, a loan facility agreement was entered into among, among others, a joint venture company (the "Joint Venture Company") (as borrower), held indirectly by the Company as to 50% and the joint venture partner as to 50%, the Company (as guarantor), a subsidiary of the joint venture partner (as guarantor), the joint venture partner and the financial institutions named therein (as lenders) in relation to a term loan facility in the aggregate principal amount of HK$3,000,000,000 for the purpose of financing and refinancing the demolition cost, construction cost and professional fees in relation to the development on Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, Hong Kong and the selling and marketing expenses in relation thereto (the "Loan Facility"). The Loan Facility is secured by, among others, a corporate guarantee in respect of 50% of the Loan Facility and a funding undertaking for project cost overrun (with completion guarantee) given by the Group (on a several basis and pro rata to the Group's 50% equity interest in the Joint Venture Company), as well as a share charge in respect of the issued share capital of the Joint Venture Company and a deed of subordination and assignment in respect of all indebtedness currently owing and which may in future become owing by the Joint Venture Company to its shareholders.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(xiv) At 31 December 2017, HLD, a substantial shareholder (as defined in the Listing Rules) of the Company is interested in approximately 33.41% (2016: 33.41%) of the total number of issued shares of the Company.

Dr. Lee Shau Kee, being a director of the Company, is deemed to have been interested in the above transactions (except note 30(b)(xiii)) as a deemed controlling shareholder of HLD.

To the extent the above transactions (except note 30(b)(xiii)) constituted connected transactions (as defined in the Listing Rules), the Group had complied with the relevant requirements under Chapter 14A of the Listing Rules.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of notes 30(b)(v), (vi), (vii), (viii), (ix), (x), (xi) and (xii) above constitute connected transactions and/or continuing connected transactions (as defined in Chapter 14A of the Listing Rules). The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Connected Transactions" in the Report of the Directors as set out in the Company's annual report for the year ended 31 December 2017.

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2017 HK$'000	2017 HK$'000	2016 HK$'000	2016 HK$'000
Non-current assets					
Interest in subsidiaries	*14*		**4,133,885**		4,139,865
Interest in associate			**2,988**		2,988
			4,136,873		4,142,853
Current assets					
Trade and other receivables		**31,970**		9,126	
Cash and bank balances		**955**		982	
		32,925		10,108	
Current liabilities					
Amounts due to subsidiaries		**1,474,060**		1,345,262	
Trade and other payables		**9,538**		9,230	
		1,483,598		1,354,492	
Net current liabilities			**(1,450,673)**		(1,344,384)
Total assets less current liabilities			**2,686,200**		2,798,469
Non-current liability					
Net employee retirement benefits liabilities			**3,024**		4,468
NET ASSETS			**2,683,176**		2,794,001
CAPITAL AND RESERVES	*25(a)*				
Share capital			**1,754,801**		1,754,801
Reserves			**928,375**		1,039,200
TOTAL EQUITY			**2,683,176**		2,794,001

Approved and authorised for issue by the board of directors on 20 March 2018.

Dr. Lam Ko Yin, Colin
Chairman

Li Ning
Director

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 10.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in debt securities which the Group has determined that they will be classified at FVTOCI on transition to HKFRS 9 based on the Group's business model and the contractual cash flow characteristics of the assets. Accordingly, the Group's current accounting policies relating to investments in debt securities as set out in notes 1(f) and 1(k) will continue to apply.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

HKFRS 9, Financial instruments (Continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 1 January 2017, accumulated impairment loss at that date would not significantly increase as compared with that recognised under HKAS 39.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(s). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

(a) Timing of revenue recognition (Continued)

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that revenue recognition for sales of properties is expected to be affected. Currently the Group's property development activities are carried out in Hong Kong only. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of Hong Kong, the Group has assessed that its property sales contracts will not meet the criteria for recognising revenue over time and therefore revenue from property sales will continue to be recognised at a point in time. Currently the Group recognises revenue from property sales upon the later of the signing of the sale and purchase agreement and the completion of the property development, which is taken to be the point in time when the risks and rewards of ownership of the property have been transferred to the customer. The Group has assessed that under the transfer-of-control approach in the new standard revenue from property sales will generally be recognised when the legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. This may result in revenue being recognised later than at present.

The Group plans to elect to use the retrospective method for the adoption of HKFRS 15 and will recognise the effect of initial application retrospectively to the each prior reporting period. The Group expects that the adjustment to be made upon the initial adoption of HKFRS 15 will not be material.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

HKFRS 16, Leases

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

Under HKFRS 16, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 27, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$3,540,000. It is expected that a majority of the future minimum lease payments will need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

FIVE YEARS' SUMMARY OF ASSETS AND LIABILITIES

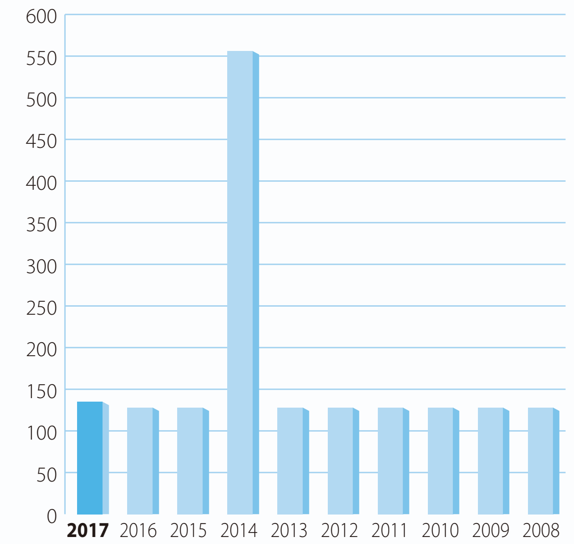
Year	2013 *HK$ Million*	2014 *HK$ Million*	2015 *HK$ Million*	2016 *HK$ Million*	**2017** ***HK$ Million***
Investment properties, other property, plant and equipment and leasehold land	1,367	1,991	2,106	2,151	**2,204**
Interest in associates	17	14	11	10	**9**
Interest in a joint venture	–	–	–	1,355	**1,364**
Properties under development for sale	2,822	843	241	327	**443**
Investments	405	523	918	682	**176**
Deferred tax assets	14	6	5	5	**5**
Other assets	3,788	3,701	2,893	1,986	**2,628**
Total assets	8,413	7,078	6,174	6,516	**6,829**
Total liabilities	3,226	1,255	522	726	**818**
Net assets employed	5,187	5,823	5,652	5,790	**6,011**

TEN YEARS' FINANCIAL SUMMARY

Year		2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Revenue											
– Continuing operations	*HK$M*	367	1,990	754	485	475	311	3,390	974	502	**494**
– Discontinued operation		155	149	158	150	141	129	117	94	60	**–**
	HK$M	522	2,139	912	635	616	440	3,507	1,068	562	**494**
(Loss)/profit attributable to shareholders											
– Continuing operations	*HK$M*	(523)	1,094	481	562	396	296	1,040	203	245	**346**
– Discontinued operation		(4)	1	2	3	1	(3)	(9)	(10)	(8)	**–**
	HK$M	(527)	1,095	483	565	397	293	1,031	193	237	**346**
Dividends	*HK$M*	128	128	128	128	128	128	556	128	128	**135**
Shareholders' funds	*HK$M*	2,973	4,101	4,425	4,729	5,143	5,187	5,823	5,652	5,790	**6,011**
(Loss)/earnings per share	*HK Cent*	(147.9)	307.5	135.6	158.6	111.5	82.4	289.5	54.1	66.4	**97.2**
Dividend per share	*HK Cent*	36.0	36.0	36.0	36.0	36.0	36.0	156.0	36.0	36.0	**38.0**
Dividend cover	*Times*	–	8.5	3.8	4.4	3.1	2.3	1.9	1.5	1.8	**2.6**
(Loss)/return on equity	*%*	(17.7)	26.7	10.9	12.0	7.7	5.7	17.7	3.4	4.1	**5.8**
Net assets per share	*HK$*	8.3	11.5	12.4	13.3	14.4	14.6	16.3	15.9	16.3	**16.9**

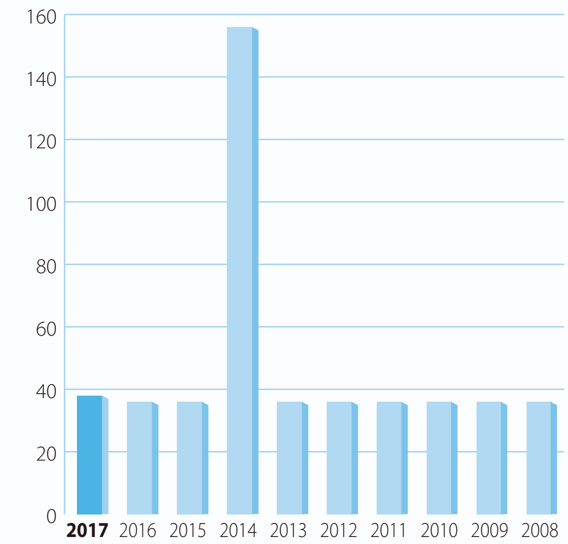
Dividends

HK$ Million



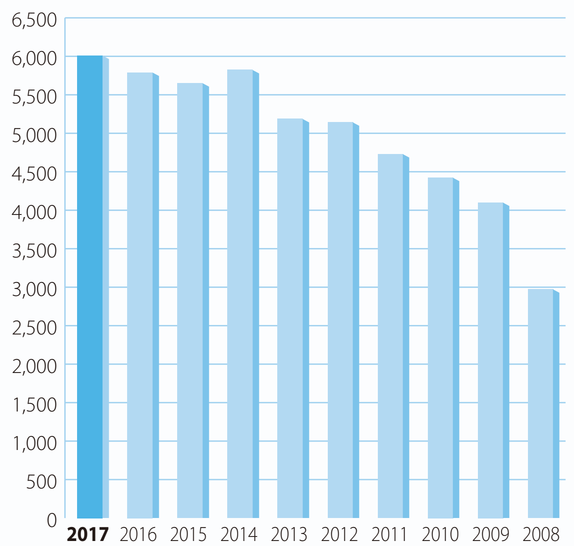
Dividends per share

HK$ Cents



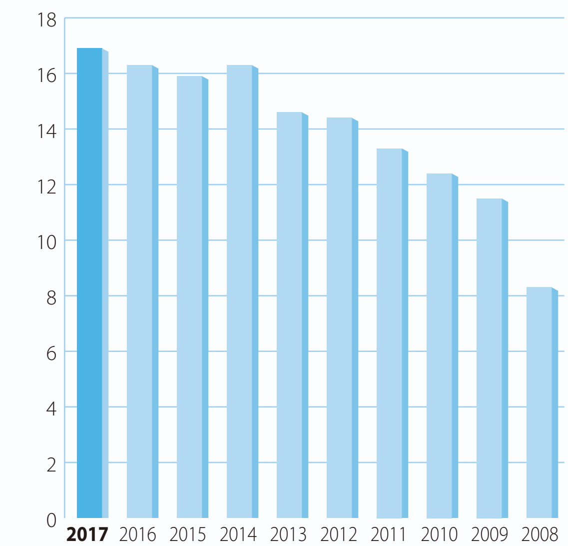
Shareholders' funds

HK$ Million



Net assets per share

HK$



GROUP PROPERTIES

As at 31 December 2017

1. PROPERTY UNDER DEVELOPMENT

Location	Lot No.	Site area *(sq.m.)*	Gross floor area *(sq.m.)*	Group's interest *(%)*	Intended use
Harbour Park 208 Tung Chau Street (formerly known as 204-214 Tung Chau Street)	NKIL 48, s.B. R.P., s.B.ss.1R.P., R.P., s1& sH	614	5,016	100	Commercial and residential
Castle Peak Road – Castle Peak Bay, Area 48 Tuen Mun, New Territories	Tuen Mun Town Lot No. 547	15,400	61,600	50	Residential

2. PROPERTIES HELD FOR SALE

Location	Lot No.	Saleable floor area *(sq.m.)*	Group's interest *(%)*	Existing use
METRO6 121 Bulkeley Street	Hung Hom I.L. No. 555	154*	100	Residential
Green Code 1 Ma Sik Road Fanling	F.S.S.T.L. 177 (S.T.T. 1364(N))	223*	100	Residential

As at 31 December 2017

3. PROPERTIES HELD FOR INVESTMENT

Location	Lot No.	Gross floor area (sq.m.)	Lease expiry (year)	Existing use
Metro Harbour Plaza 8 Fuk Lee Street Tai Kok Tsui	KIL 11127 RP	23,549	2047	Commercial arcade
METRO6 121 Bulkeley Street	Hung Hom I.L. No.555	932	2061	Commercial arcade
Green Code 1 Ma Sik Road Fanling	F.S.S.T.L. 177 (S.T.T. 1364(N))	8,610	2060	Commercial arcade
Shining Heights 83 Sycamore Street	KIL 11159	2,469	2054	Commercial arcade
The Spectacle 8 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No. 38	2,300	2047	Commercial arcade
20 Tin Dai Yan Road Chung Uk Tsuen Hung Shui Kiu	Lot Nos. 3039A, 3039RP & 3042 in DD 124 Hung Shui Kiu	1,912	2047	Godown

4. OTHER PROPERTIES

Location	Lot No.	Site area (sq.m.)	Lease expiry (year)	Group's interest (%)	Description
98 Tam Kon Shan Road Ngau Kok Wan North Tsing Yi	Tsing Yi Town Lot No. 102	19,740	2047	100	Shipyard and office
Mui Wo	DD 2 Lot Nos. 614 RP, 619 Sec. B, C and RP	4,233	2047	100	Agricultural land
Mui Wo	DD 2 Lot Nos. 431-487, 569 and 635-637	28,606	2047	50	Agricultural land
Mui Wo	DD 2 Lot Nos 498-499, and 588-591	849	2047	100	Agricultural land

* The area represents saleable floor area of unsold units at 31 December 2017.

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