

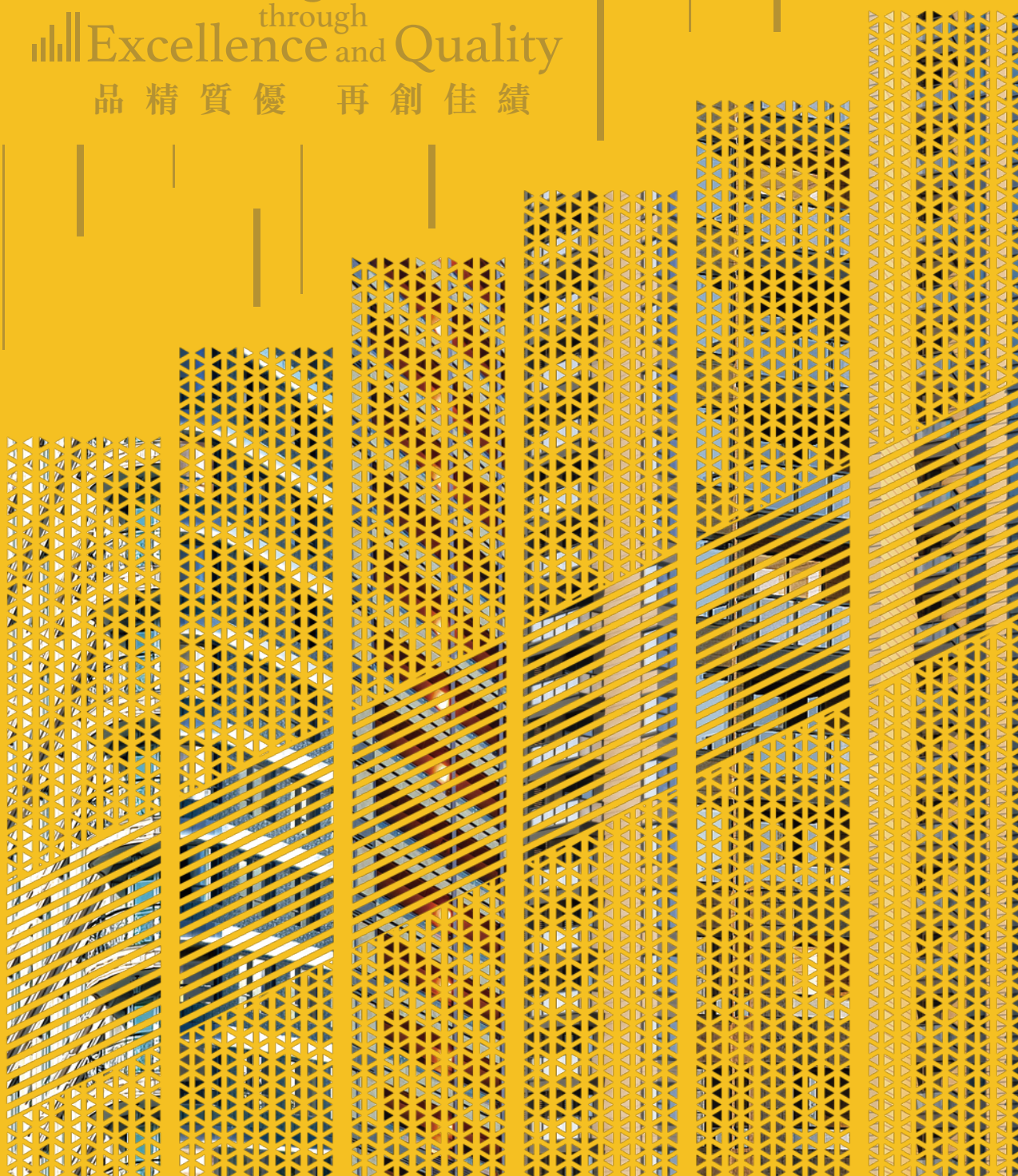
KW 嘉華國際集團有限公司
K. WAH INTERNATIONAL HOLDINGS LIMITED

於百慕達註冊成立之有限公司 Incorporated in Bermuda with limited liability

Stock code 股份代號 00173

ANNUAL REPORT 2016 年報

Sustaining Success
through
Excellence and Quality
品精質優 再創佳績



OUR MISSION

It is our mission to focus on customer needs and pursue the spirit of excellence with quality products and services through our commitment to research, design and value creation. With vision, perseverance and teamwork, we strive to provide shareholders with the best return on their investment.



企業使命

秉承以客為本及追求卓越之精神，不斷透過研究、設計及創造價值，恪守不屈不撓、群策群力及具遠見之經營理念，為客戶提供優質產品及服務，並為股東帶來理想投資回報。

CORPORATE PROFILE

K. Wah International Holdings Limited (“KWIH” or “the Group”, stock code: 00173) is the listed property arm of K. Wah Group. With a strong foothold established in Hong Kong, KWIH has grown and prospered into a leading integrated developer and investor of exquisite and niche projects, with a strategic focus on Hong Kong, the Yangtze River Delta and Pearl River Delta regions.

Committed to delivering premium projects built to an uncompromising standard of quality, our portfolio of residential developments, Grade A office towers, hotel, serviced apartments and retail complexes are truly one-of-a-kind. Each of our properties boasts a perfect interplay of superb design, delicate craftsmanship, top-notch facilities and innovative features, thanks to a team of seasoned professionals. That is also why we are honoured with a host of international accolades, besides earning a reputed name for impeccable living.

Sharing the common vision of excellence and sustainability, we go beyond both in the projects we develop and the communities we help grow and cultivate. We have always been a trend-setter pioneering unique and sophisticated lifestyle, embracing customers’ needs and creating added value in the projects we undertake as a premiere brand.

Taking pride in our track record and strong financial capability, guided by the spirit of prudence and excellence, we will continue to adopt a progressive strategy with a disciplined approach in land acquisition, in strive for setting ever higher standards of quality living spaces and delivering long term shareholder value.



公司簡介

嘉華國際集團有限公司（「嘉華國際」或「集團」；股份代號：00173）為嘉華集團旗下之房地產業務旗艦，創立並紮根於香港，至今已發展成以香港、長三角及珠三角地區為策略據點之綜合發展商及投資者，所開發之項目均以品精質優見稱。

嘉華國際擅長於開發精品物業，由旗下專業團隊所拓展之項目涵蓋住宅、甲級商廈、酒店、服務式公寓及特色商舖，物業皆匠心獨運，揉合特色設計、精湛技術、頂尖設備及創新元素於一身，多年來物業質素備受市場認同，建築及設計屢獲國際殊榮。

集團以締造理想和諧的生活國度為發展宗旨，因地制宜，不僅用心傳承「嘉華」的優質品牌內涵，更以臻善創新的意念打造別樹一幟的物業，塑造現代生活新標準，切合用家需要的同時，亦為物業注入長遠價值。

憑藉資深經驗及雄厚財政實力，嘉華國際將繼續以審慎進取的策略，物色具潛力的土地，竭誠為客戶打造優質的生活空間，為股東帶來長遠而持續的回報。

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Hall of Achievement

K. Wah International Holdings Limited

- Best Beloved Integrated Property Developer Award
- Outstanding Corporate Social Responsibility Award
- Social Caring Awards for Green Excellence Award
- Quam IR Awards — Main Board Category
- Bronze Award — Real Estate Integrated Development and Investment Category
- Employer of Choice Award 2016
- Outstanding Corporate Governance Award 2016

Twin Peaks, Hong Kong

Best Residential Landmark Development

The Spectra, Hong Kong

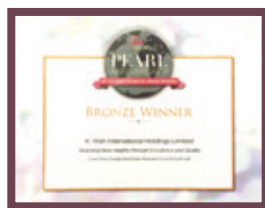
Best Railway Residential Development

K. City, Hong Kong

The Outstanding Developer Awards 2016

Grand Summit, Shanghai

- 2016 Most Influential Property
- 2015 Iconic Property
- 2016 The Best Selling Property
- 2016 BRIC Forum cum The Fifth BRIC Value Award Ceremony:
- 2016 The Most Valuable Luxury Property



Stanford Residences Jing An, Shanghai

Serviced Apartment of the Year, Puxi
 Best Serviced Apartment
 High-end Serviced Apartment Brand of the Year
 Top Serviced Apartment (Puxi) — Editors' Choice
 Serviced Apartment of the Year
 Best Serviced Apartment Brand
 2016 Luxury Homes of China — Best Serviced Apartment:
 Winner in Outstanding Lifestyle and Honourable Mention in
 Outstanding Interior Decoration

The Peak, Nanjing

2016 Best Residence in Nanjing
 Golden Flag Award
 2016 Promising Property Developer (China-Nanjing)
 2016 Nanjing Realty Market — Best Brand Enterprise Award

J Metropolis, Guangzhou

2016 The Best Selling Residence

Silver Cove, Dongguan

2016 Guangdong Property Brands Awards:
 Dongguan Best Brand Property Enterprise and
 The Best Popular Selling Residence in Dongguan



Financial Calendar

DATES	EVENTS
22 August 2016	Announcement of Interim Results for the six months ended 30 June 2016
18 October 2016	Payment of 2016 Interim Scrip Dividend (with a cash option) of 5 HK cents per share
21 March 2017	Announcement of Annual Results for the year ended 31 December 2016
2 June 2017 to 7 June 2017 (both dates inclusive)	Closure of Registers of Members for ascertaining shareholders' eligibility to attend and vote at the 2017 Annual General Meeting
7 June 2017	2017 Annual General Meeting
15 June 2017 to 20 June 2017 (both dates inclusive)	Closure of Registers of Members for ascertaining shareholders' entitlement to the 2016 Final Dividend
20 June 2017	Record Date for 2016 Final Dividend
19 July 2017	Payment of 2016 Final Scrip Dividend (with a cash option) of 13 HK cents per share

Corporate Information

CHAIRMAN & MANAGING DIRECTOR

Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA*

EXECUTIVE DIRECTORS

Mr. Francis Lui Yiu Tung
Ms. Paddy Tang Lui Wai Yu, *BBS, JP*
Mr. Alexander Lui Yiu Wah

NON-EXECUTIVE DIRECTOR

Dr. Moses Cheng Mo Chi, *GBM, GBS, OBE, JP*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Robin Chan Yau Hing, *GBS, LLD, JP*
Dr. William Yip Shue Lam, *LLD*
Mr. Au Man Chu
Mr. Wong Kwai Lam

AUDIT COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*
Dr. Moses Cheng Mo Chi, *GBM, GBS, OBE, JP*
Mr. Au Man Chu

REMUNERATION COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*
Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA*
Mr. Wong Kwai Lam

NOMINATION COMMITTEE

Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA (Chairman)*
Dr. William Yip Shue Lam, *LLD*
Mr. Wong Kwai Lam

COMPANY SECRETARY

Ms. Cecilia Lee Wai Kwan

INDEPENDENT AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29th Floor, K. Wah Centre
191 Java Road
North Point, Hong Kong

PRINCIPAL BANKERS*

Bank of China
China Construction Bank, Asia
DBS Bank
Hang Seng Bank
Hongkong and Shanghai Banking Corporation
Sumitomo Mitsui Banking Corporation
United Overseas Bank

SOLICITORS*

Baker & McKenzie
King & Wood Mallesons
Mayer Brown JSM
P.C. Woo & Co.
Wilkinson & Grist

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

WEBSITE ADDRESS

<http://www.kwih.com>

SHARE LISTING

The Stock Exchange of Hong Kong Limited
("HK Stock Exchange")

STOCK CODE

HK Stock Exchange : 00173
Bloomberg : 173 HK
Reuters : 0173.HK

* Listed in alphabetical order

Five Years Summary

CONSOLIDATED PROFIT AND LOSS STATEMENT

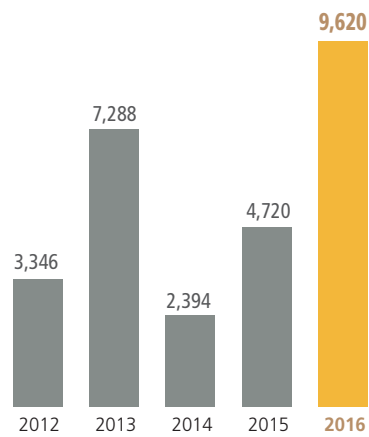
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Revenue	3,346,477	7,288,415	2,393,967	4,720,487	9,619,956
Profit before tax	5,105,421	3,003,950	2,707,293	2,815,345	5,071,846
Taxation charge	(733,130)	(1,301,940)	(815,250)	(1,368,223)	(1,845,715)
Profit for the year	4,372,291	1,702,010	1,892,043	1,447,122	3,226,131
Non-controlling interests	(72,112)	(55,237)	(62,083)	(80,368)	(44,135)
Profit attributable to equity holders of the Company	4,300,179	1,646,773	1,829,960	1,366,754	3,181,996
Earnings per share (HK cents)	163.4	60.9	65.7	48.1	107.6
Dividend per share (HK cents)	15.0	15.0	15.0	17.0	18.0

CONSOLIDATED BALANCE SHEET

	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Non-current assets	5,579,639	5,798,339	8,735,721	8,446,513	8,831,175
Associated companies and joint ventures	4,276,383	4,550,280	3,452,498	1,347,748	2,255,043
Other non-current assets/investments	4,924,835	11,329,422	7,145,083	4,059,194	5,668,480
Net current assets	15,184,661	15,619,295	24,934,237	23,270,988	19,880,535
Employment of capital	29,965,518	37,297,336	44,267,539	37,124,443	36,635,233
Financed by:					
Share capital	263,379	271,215	278,715	283,959	295,674
Reserves	19,093,656	27,347,538	24,866,467	21,541,214	25,064,023
Shareholders' funds	19,357,035	27,618,753	25,145,182	21,825,173	25,359,697
Non-controlling interests	1,052,460	1,475,193	1,545,781	1,511,587	1,766,770
Long-term borrowings and guaranteed notes	8,412,763	6,978,267	15,947,623	12,124,823	7,932,834
Other non-current liabilities	1,143,260	1,225,123	1,628,953	1,662,860	1,575,932
Capital employed	29,965,518	37,297,336	44,267,539	37,124,443	36,635,233
Net assets value per share (HK\$)	7.35	10.18	9.02	7.69	8.58

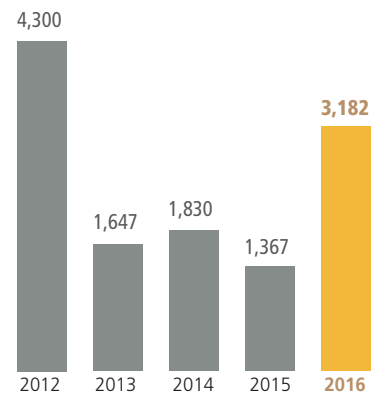
Revenue

(HK\$ Million)



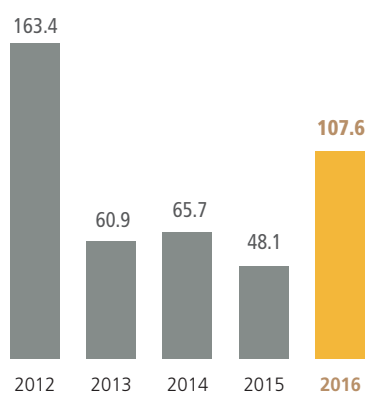
Profit Attributable to Equity Holders of the Company

(HK\$ Million)



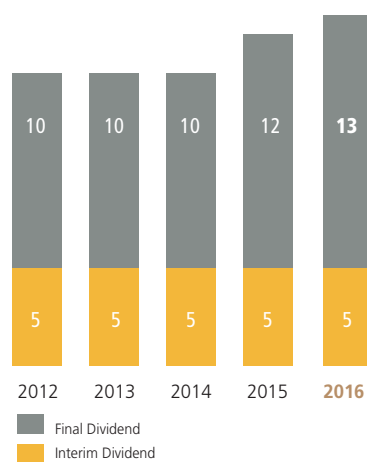
Earnings Per Share

(HK Cents)



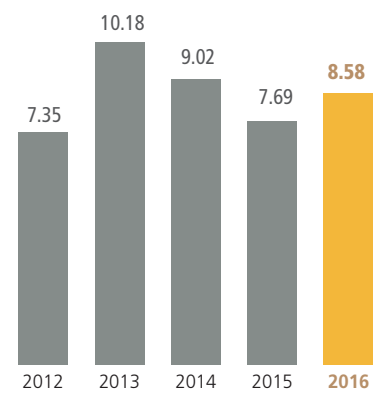
Dividend Per Share

(HK Cents)



Net Assets Value Per Share

(HK\$)



Statement from the Chairman

Dear Shareholders,

I am pleased to report that 2016 has been another productive year for KWIH, following our solid performance in 2015. Strong sales were recorded for the key projects launched by KWIH in Hong Kong and Mainland China, as a result of our astute strategies and commitment to excellence and quality. Attributable revenue for the year increased by a substantial 95% to HK\$12,570 million, the majority of which was from the sales of Twin Peaks and Corinthia By the Sea in Hong Kong, Grand Summit in Shanghai, J Wings and J Metropolis Phase II in Guangzhou, and Silver Cove Phase I and II in Dongguan. Attributable contracted sales (approximately HK\$13 billion) reached more than HK\$10 billion for a second consecutive year, of which approximately HK\$6.3 billion was recognised in the accounts for the year. The remaining amount of approximately HK\$6.7 billion, which is expected to be recognised in the next two years, will underpin future profits of the Group.

The Group's underlying profit for 2016 soared by 113% year-on-year to HK\$2,808 million. Profit attributable to equity holders grew by 133% to HK\$3,182 million. Our Board has recommended a final dividend of 13 HK cents per share. Together with the interim dividend of 5 HK cents per share, the total dividend for the year amounted to 18 HK cents per share, in line with KWIH's commitment to sharing its results with shareholders.

RECOGNITION FOR K. WAH EXCELLENCE AND QUALITY

Hong Kong's property market went through a period of high volatility during the year under review. Pent-up demand for residential units returned to the market in March 2016, as sentiments again turned positive amid the continuing low interest rate environment and reduced expectations of a US rate hike. KWIH capitalised on this window of opportunity by launching The Spectra, a premium project situated next to the MTR West Rail Line, which received an enthusiastic



response. As at the end of last year, close to 90% of the units had been sold and will generate considerable revenue for the Group.

With property prices approaching new record highs, in November 2016 the Hong Kong Government announced it would raise the stamp duty to 15% for all residential property transactions. The new measure thus curbed demand by speculators, who mostly remained on the sidelines. Nevertheless, Hong Kong's sound fundamentals, strong availability of funds at low interest rates and consistently high demand for housing properties by residents are all expected to support the stable development of the property market.

In early 2016, the property market in Mainland China regained momentum with the easing of the credit supply, the Central Government's continuation of its "destocking" policy introduced in late 2015, and

additional cuts in interest rates and the bank reserve requirement ratio. The Group seized this opportunity to launch several premium projects, which achieved excellent results. In the Yangtze River Delta region, these included Grand Summit in Jingan District and The Palace II in Xuhui District. Both of these luxury home projects on prime sites in central Shanghai were among the highest sales performers in the city's high-end property market. Satisfactory sales were also recorded for The Peak, the Group's first project in Nanjing, after the launch of the first batch of units. In the Pearl River Delta region, J Wings and J Metropolis Phase III in Guangzhou were well received by buyers, as were Silver Cove Phases I and II in Dongguan. The positive results achieved for these projects were clear evidence that the K. Wah brand enjoys strong market recognition for its properties and the quality associated with them.

In September 2016, the Central Government introduced stringent regulatory measures, such as higher down payments and purchase restrictions, in a number of cities to curb rocketing property prices. The Group is of the view, however, that a stronger regulatory effort by the Government will stabilise prices and contribute to the long-term, healthy development of the property market.

The Group's recurring income, derived mainly from Shanghai K. Wah Centre, increased by 8% to over HK\$490 million. At the end of 2016, Shanghai K. Wah Centre maintained almost full occupancy and Stanford Residences Jing An in Grand Summit, Shanghai, reported an occupancy rate of over 80%. Both reflected the market recognition of their prime locations and premium services.

BUILDING UP OUR LANDBANK

KWIH replenished its land reserve in Hong Kong and Mainland China to provide solid support for future sales in a timely manner. In Hong Kong, KWIH acquired Kai Tak Area 1K Site 2 in East Kowloon in December 2016 for HK\$5,869 million. The site is located at the centre of the Kai Tak Development Area and will eventually include comprehensive infrastructure facilities, such as Kai Tak Station of the MTR Shatin to Central Link,

Kai Tak Sports Park and Metro Park, all designed to promote the area as an alternative core business district for Hong Kong. Along with various other developments in the area, such as the Group's K. City project now under construction, Kai Tak is set to become a vibrant new neighbourhood in Hong Kong with strong potential for further development.

To consolidate its presence in the Yangtze River Delta region, KWIH expanded in Nanjing. The Group acquired a premium site and participated in the development of another premium site in December 2016 and earlier this year respectively. One is a residential/commercial site at G89 Jiangning District next to the Nanjing South Railway Station and other transport and residential facilities. The second residential site is located at G87 Pukou District, an area designated for high-tech companies and innovative ventures focusing on scientific research and technological development. This site has access to strong educational facilities, such as Southeast University one kilometre to the north.

SEIZING NEW OPPORTUNITIES

The global political and economic climate in 2017 will be underscored by several factors: the anticipated faster pace of US interest rate hikes, the commencement of the Brexit process in Great Britain, the general elections in France and Germany, and expectations for the continued devaluation of the RMB, all of which will cause uncertainty in the financial markets of Hong Kong, Mainland China and the rest of the world. Additionally, the market expects there will be increasing outflows of Mainland China funds given the rising yields of US Dollar assets. In the meantime, at the 2017 Central Economic Work Conference it was stated that one of the priority tasks for the year would be to assure the stable and healthy development of the property market, based firmly on the principle of "residential properties for owners' use but not for speculation". In view of these developments, KWIH will continue to closely monitor trends in the global economy and review its risk management strategies to ensure we are always well-prepared for any challenges that may arise in the market.

Statement from the Chairman

With proven experience and solid financial strength, KWIH remains committed to the creation of quality space for living. We will continue to launch new projects, subject to market conditions, for our sustainable, long-term business development. In Hong Kong, we have seen positive sales of K. City in the Kai Tak Development Area since its launch in February 2017. In the year ahead, we will launch The Palace III in the Xuhui District, Windermere in the Qingpu District and Azure in the Pudong District of Shanghai, while in the Pearl River Delta region we will launch Huadu Jiahua Plaza Phase III, J Metropolis Phase IV in Guangzhou and Silver Cove Phase III in Dongguan.

In addition, the Group will continue to expand its investment property portfolio. The two new serviced apartments in Shanghai, Stanford Residences Xu Hui in The Palace and Stanford Residences Jin Qiao in Azure, will become operational in the second and fourth quarters of 2017, respectively, and J Town, the commercial portion of Silver Cove in Dongguan, is expected to become operational in the second quarter of the year. Together, these will bring the total GFA of the Group's investment properties closer to its goal of 200,000 sqm GFA for the portfolio.

KWIH has maintained a sound financial position in the marketplace, despite volatility. With its robust sales revenue and relatively low gearing ratio of 14% at the end of 2016, strong liquidity is available for the Group's business development. We will therefore continue to maintain our prudent yet progressive approach to selecting premium sites in Hong Kong, the Yangtze River Delta and Pearl River Delta regions on a highly selective basis, with a view to fueling our sustainable, long-term business development.

STRONG CORPORATE GOVERNANCE FOR OUR CONTINUING SUCCESS

At KWIH, we firmly believe that sound corporate governance is essential to the success of our business. As well as placing strong emphasis on high standards of corporate governance, we maintain effective risk management and internal control systems. The Board of Directors has played a critical role in this regard, providing the Group with their advice and suggestions and helping to supervise the Group's business and financial operations to ensure our shareholders' interests are protected.

KWIH has been able to achieve excellent results in this competitive and challenging era of globalisation thanks to the diligence and wisdom of our management team and the commitment of our employees. On behalf of my fellow Directors on the Board, I would like to express my sincere gratitude to the management and staff for their continuing efforts and loyal service. This year, as the Group celebrates the 30th anniversary of its listing, we look forward to delivering even greater shareholder value and to work together to reach our next milestone of success.

Dr Lui Che-woo
Chairman

21 March 2017



TWIN PEAKS II
HONG KONG

Management Discussion and Analysis

REVIEW OF OPERATIONS

Operating Results

The revenue of the Group for the year ended 31 December 2016 was HK\$9,620 million, which was primarily derived from the property sales of Grand Summit in Shanghai, J Wings and J Metropolis in Guangzhou, Silver Cove in Dongguan, Twin Peaks in Hong Kong and as well as from the rental income of the Shanghai K. Wah Centre. The attributable revenue of the Group (comprising the revenue of the Group and attributable revenue from joint ventures and associated companies of HK\$2,950 million) was HK\$12,570 million in 2016, representing an increase of approximately 95% as compared with that of the last year.

Attributable contracted sales of the Group (comprised of contracted sales of the Group and attributable contracted sales from joint ventures and associated companies) in 2016 amounted to approximately HK\$13 billion, mainly derived from Grand Summit and The Palace Phase II in Shanghai, The Peak in Nanjing, J Wings and J Metropolis Phases II & III in Guangzhou, Silver Cove in Dongguan, The Spectra and as well as other joint venture projects in Hong Kong. Approximately HK\$6.3 billion of the above attributable contracted sales of the Group was recognised in the accounts in 2016. The remaining approximately HK\$6.7 billion is expected to be recognised in 2017 and 2018.

Profit attributable to equity holders of the Company was HK\$3,182 million, while underlying profit of the Group (before fair value gain of investment properties)

was HK\$2,808 million for the year ended 31 December 2016.

The total comprehensive income attributable to equity holders of the Company was HK\$3,617 million for the year ended 31 December 2016 after accounting for the increase in fair value on the non-current investment of an approximately 3.8% interest in Galaxy Entertainment Group Limited ("GEG") and exchange differences arising from translation of the Group's RMB denominated net assets at year end.

PROPERTY DEVELOPMENT AND INVESTMENT IN HONG KONG

The property market slowed down at the beginning of the year as market participants worried about the global and Chinese economic outlook while expecting the U.S. interest rate would hike. Property developers reacted by offering price cuts and/or with greater incentives to attract homebuyers. At the same time, favourable responses in land sales, the return of Mainland property investors and competitive mortgage rate cuts among banks in Hong Kong have combined to drive a resurgent Hong Kong property market until early November when the Hong Kong Government announced an increase of ad valorem stamp duty to 15%. Nevertheless, while transaction volume dropped (particularly in the secondary market), property prices have remained stable since then. On the other hand, property developers were still keen for land replenishment and competition in the land market remained strong.

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000			
2016						
Revenue	3,266,978	5,857,652	—	392,697	102,629	9,619,956
Adjusted EBITDA	895,050	3,086,042	(3,199)	346,765	(192,286)	4,132,372
Total assets	15,180,940	20,293,476	304,798	8,510,669	6,182,735	50,472,618
2015						
Revenue	920	4,262,982	—	351,081	105,504	4,720,487
Adjusted EBITDA	17,543	2,519,652	(3,169)	324,875	(221,357)	2,637,544
Total assets	14,538,477	19,169,155	311,183	7,976,587	4,568,242	46,563,644

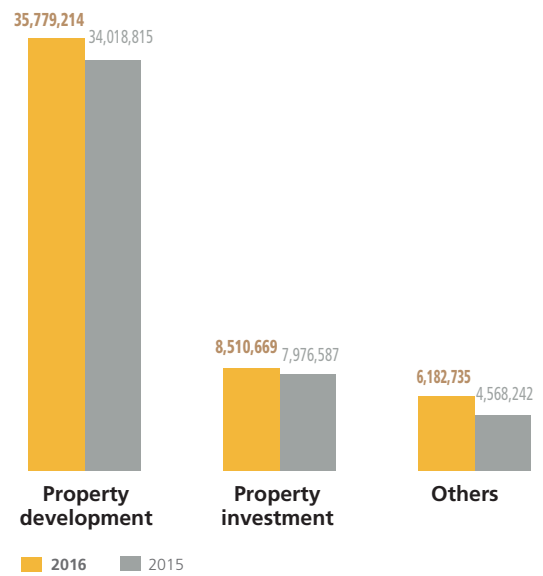
Revenue by Division

For the year ended 31 December 2016
(HK\$'000)



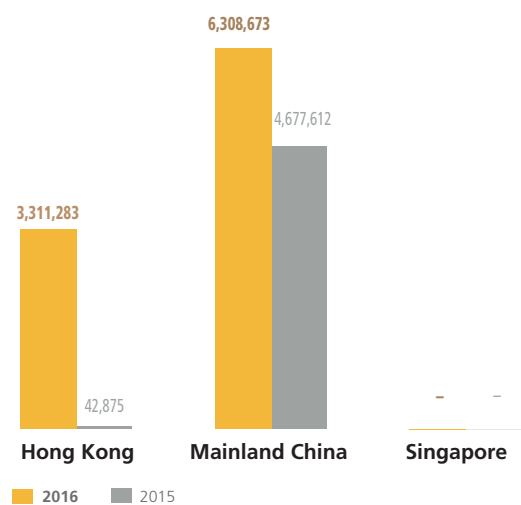
Total Assets by Division

As at 31 December 2016
(HK\$'000)



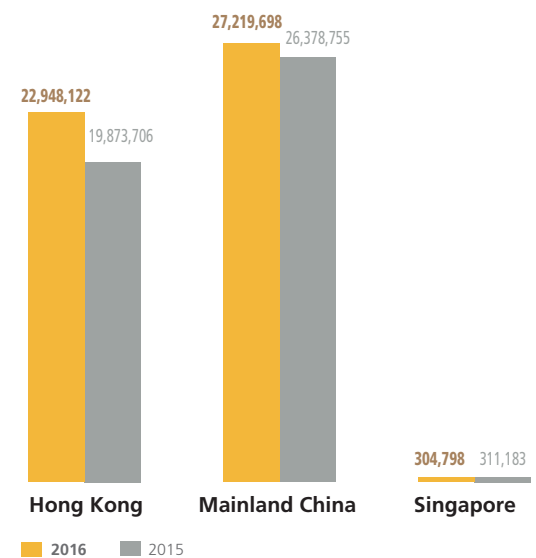
Revenue by Geographical Area

For the year ended 31 December 2016
(HK\$'000)

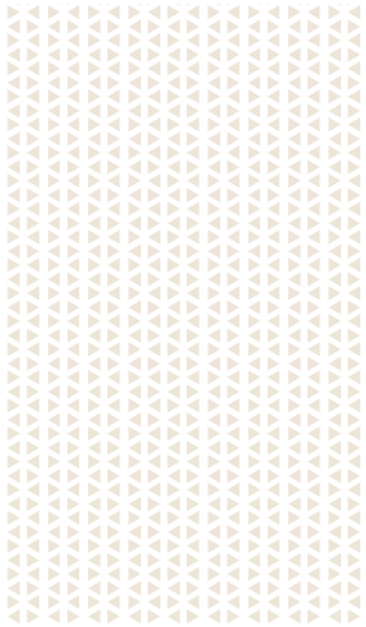


Total Assets by Geographical Area

As at 31 December 2016
(HK\$'000)



K. CITY
HONG KONG



THE
SPECTRA
HONG KONG

Sales of the Group during the year were mainly driven by the joint venture project The Spectra and the remaining units of joint venture projects Marinella, Providence Bay, Providence Peak and Mayfair By The Sea I. The Spectra was launched in March and received a satisfactory market response. Occupation permits for Twin Peaks and Corinthia By The Sea were obtained in June, and consequentially sales for these two projects were recognised in 2016.

In December, the Group successfully acquired a new site at Kai Tak for a total land premium of HK\$5,869 million.

The Group's leasing performance continued to be satisfactory during the year. Our premium dining and shopping arcade, J SENSES, in Wan Chai maintained almost full occupancy and recorded satisfactory rental income.

(A) Current Major Development Properties
Twin Peaks, Tseung Kwan O (100% owned)

This project is a premium residential development comprised of 372 small- to medium-sized units with a total GFA of approximately 28,000 square metres. Pre-sales began in March 2015 with an encouraging market response. The occupation permit was issued in June 2016 and all of the residential units have been sold except for a penthouse unit.

Corinthia By The Sea, Tseung Kwan O (40% owned)

This is a premium residential complex partnered with another property developer. The development offers 536 units with a total GFA of approximately 45,000 square metres. Pre-sales began in June 2015 with an encouraging market response. The occupation permit was issued in June 2016 and all of the residential units have been sold.



Marinella, Hong Kong



(Top) Corinthia By The Sea, Hong Kong
(Bottom) J SENSES, Hong Kong

Management Discussion and Analysis

The Spectra, Yuen Long (60% owned)

This premium residential development has been undertaken together with another property developer. The total GFA is approximately 49,000 square metres comprising 912 units. Pre-sales began in March 2016 with an encouraging market response, and over 90% of the residential units have been sold. Superstructure works are underway, and the project is expected to be completed by 2017.

K. City, Kai Tak, Kowloon (100% owned)

This residential development is located in the heart of the Kai Tak Development Area near the future Kai Tak MTR Station of the Shatin to Central Link. The development offers 900 units with a total GFA of approximately 51,000 square metres. Pre-sales began in February 2017 with an encouraging market response. Superstructure works are in progress with completion expected by 2018.

Tai Po Town Lot No. 226 (100% owned)

This residential development with a total GFA of approximately 61,600 square metres, is located in close proximity to our joint venture projects of Providence Bay, Providence Peak and Mayfair By The Sea I. The district there is a fast maturing community with good potential. Planning and design work is currently in progress.

Chantilly, 6 Shiu Fai Terrace, Stubbs Road (100% owned)

This exclusive low-rise luxury residential project has a total GFA of approximately 8,100 square metres. The complex is comprised of 24 luxury apartments located in a 12-storey building and includes an exclusive clubhouse and a swimming pool. The project is complete, and approximately 40% of the residential units have been sold. During 2016, certain apartments were transferred to investment properties in pursuance of the Group's strategy to increase recurring income.

Marinella, Aberdeen, Hong Kong (35% owned)

Marinella is a luxury residential development with a total GFA of approximately 69,300 square metres and 411 units. The development was built in cooperation with other property developers, for which the Group acted as lead partner and project manager. The development is complete, and almost all of the residential units have been sold.

Providence Bay, Tai Po (15% owned)

This luxury residential development, which has a total GFA of approximately 78,400 square metres and 482 units, was undertaken in collaboration with other property developers. The development is complete, and over 95% of the residential units have been sold.



K. City, Hong Kong

Providence Peak, Tai Po (25% owned)

This luxury residential complex was developed in cooperation with other property developers. With a total GFA of approximately 83,600 square metres and 548 units, the development is complete, and over 95% of the residential units have been sold.

Mayfair By The Sea I, Tai Po (15% owned)

This luxury residential development with a total GFA of approximately 67,000 square metres and 546 units, was undertaken in association with another property developer. The development is complete, and almost all of the residential units have been sold.

2 Grampian Road, Kowloon (100% owned)

The Group revised its plan and has now planned to develop this project into a premium low-rise residential development with a total GFA of approximately 2,000 square metres. Foundation works have been completed and the project has a targeted completion date of 2019.

30 Po Shan Road, Mid-Levels, Hong Kong (50% owned)

This is a luxury residential development undertaken in cooperation with another property developer. The total completed GFA will be approximately 3,700 square metres. Planning and design work is currently in progress.

New Kowloon Inland Lot No. 6566, Kai Tak Area 1K Site 2 (100% owned)

This newly acquired site, with a total GFA of approximately 53,000 square metres, is located in the heart of the Kai Tak Development Area near the future Kai Tak MTR Station of the Shatin to Central Link. Planning and design work will commence soon.

(B) Other properties in Hong Kong***J SENSES at J Residence, Johnston Road, Wan Chai (100% owned)***

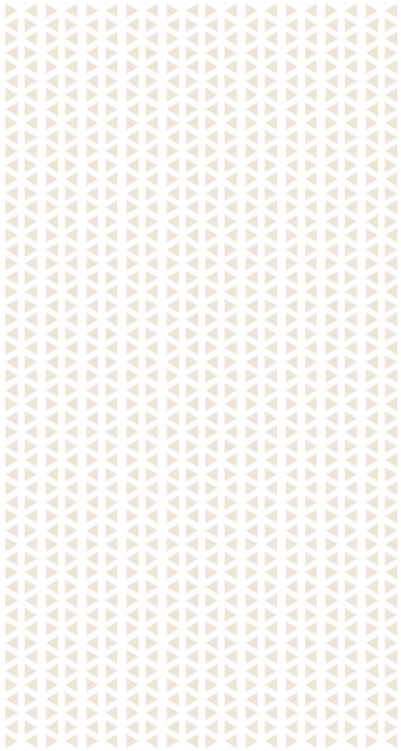
With a total GFA of approximately 3,400 square metres, J SENSES is a premium dining and shopping arcade located in the heart of Hong Kong Island. It is almost full occupied and continues to deliver stable rental income for the Group.

**HONG KONG**

- 1** Twin Peaks
- 2** Corinthia By The Sea
- 3** The Spectra
- 4** K. City
- 5** Tai Po Town Lot No. 226
- 6** Chantilly
- 7** Marinella
- 8** Providence Bay
- 9** Providence Peak
- 10** Mayfair By The Sea I
- 11** 2 Grampian Road
- 12** 30 Po Shan Road
- 13** Kai Tak Area 1K Site 2
- 14** J SENSES



AZURE
SHANGHAI



THE PEAK
NANJING



PROPERTY DEVELOPMENT AND INVESTMENT IN MAINLAND CHINA

During the year, the property market in Mainland China was going through stages of general rally with overheated sentiments in many cities, particularly, in tier-one and two cities, before consolidation. With the cash generated from strong sales, many property developers aggressively bid for land put on the market resulting in many recorded prices.

With the liquidity in the banking market to support economic growth and de-stocking in lower-tier cities, the property market in tier-one and some popular tier-two cities turned around after a brief setback in March/April. A strong rebound was then witnessed, with fervent market sentiments and price increases for properties accelerating in major tier-one and two cities. While the local governments had been imposing various restrictive measures on property purchasers, more stringent rules were added, also on land bidders, since early October which succeeded in swiftly stabilising the property market. Transactions then dropped with only a

moderate drop in price. Land market was cooled down with less property developers participating in land bids while the transaction prices remained stable.

During the year, the Group continued to market the remaining units of Grand Summit and The Palace in Shanghai, J Metropolis and J Wings in Guangzhou and Silver Cove in Dongguan with good responses. We also launched a new project, The Peak in Nanjing in the last quarter which also received a good response. With the completion of J Metropolis Phase II and Silver Cove Phase I & II, the pre-sale results were recognised in 2016.

In December, the Group successfully acquired a new site in Nanjing for a total land premium of RMB1,360 million.

The Group's major investment property, Shanghai K. Wah Centre, maintained a satisfactory occupancy rate of over 99% during the year.



SHANGHAI

- 1 Grand Summit
- 2 The Palace
- 3 Azure
- 4 Weifang Village Street Project
- 5 Windermere
- 6 Shanghai K. Wah Centre
- 7 Stanford Residences Jing An
- 8 Office project, Suhe Creek, Jingan District

NANJING

- 9 The Peak
- 10 Site G89, Jiangning District
- 11 Site G87, Pukou District

Management Discussion and Analysis

(A) Current Major Development Properties *Shanghai and Nanjing*

Grand Summit, Xinzha Road, Jingan District (100% owned)

Situated in an upmarket area of Jingan District close to the vibrant central retail and business district of Nanjing West Road, this exclusive luxurious residential project has a total GFA of approximately 100,000 square metres offering 273 residential units and 113 units allocated as serviced apartments under “Stanford Residences”. The project is complete, and over 90% of the residential units have been sold and over 80% the serviced apartment units have been leased as at 2016 year end.

The Palace, Jianguoxi Road, Xuhui District (100% owned)

This unique luxury development is located in an affluent, traditionally residential area of Shanghai. The total GFA of this project is approximately 140,000 square metres, featuring 14 blocks of luxury residential buildings and upscale commercial facilities. The first phase of the project, covering approximately 36,000 square metres GFA, is complete, and over 95%

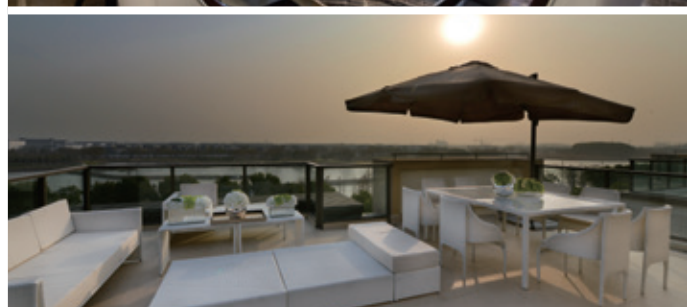
of the units have been sold. The second phase of the project, covering approximately 35,000 square metres GFA, began its pre-sales in May 2015 and was well received by the market with over 85% of which have been sold. The balance is comprised of approximately 69,000 square metres, of which 119 units of approximately 26,000 square metres will be retained as serviced apartments and launched to the market for leasing in 2017, also under the “Stanford Residences” brand. The development is expected to be completed by 2017.

The Peak, Xingxian Road, Qixia District, Nanjing (100% owned)

This project is located in a well-developed community with a wide range of facilities. Due to its elevated position, it enjoys panoramic views. It has a total GFA of approximately 132,000 square metres and is being developed into an integrated residential and commercial complex offering 1,167 residential units to the market. Pre-sales began in September 2016 with a good market response. Superstructure works are underway, and construction is due to be completed in 2018.



The Palace II, Shanghai



(Top) Grand Summit, Shanghai

(Bottom) Windermere, Shanghai

***Azure, Jingye Road, Pudong New District
(100% owned)***

This project is a premium residential development comprised of 232 units with a total GFA of approximately 29,000 square metres. 103 units with a total GFA of approximately 13,000 square metres will be retained as serviced apartments, also under the “Stanford Residences” brand. It is within a well-developed residential area that offers good transportation links to the Pudong CBD. Superstructure works are underway, and the project is expected to be completed in 2017.

***Site 7-7, Unit E18, Weifang Village Street,
Pudong District (100% owned)***

This project is located by the Huangpu River in Pudong, with a total GFA of approximately 14,200 square metres. It is situated in a prime location between the Lujiazui Financial Centre and the convention, exhibition and business zone of the World Expo headquarters. Government approval is being sought for the project’s master design plan.

***Windermere, Qingpu District
(100% owned)***

Located in Zhujiajiao Town in Qingpu District, the development is comprised of low-rise residential buildings with ancillary commercial facilities offering 256 units and a total GFA of approximately 71,000 square metres. The project is complete, and sales of this project are expected to commence in 2017.

***Site G89, Jiangning District, Nanjing
(100% owned)***

This newly acquired site is, located in Jiangning District, close to several railway and transportation networks and within 1 kilometre of the Nanjing South Railway Station. It has a total GFA of approximately 49,700 square metres and will be developed into residential buildings with ancillary commercial facilities. The project company was formed. Planning and design work has commenced.



The Palace III, Shanghai

Management Discussion and Analysis

Site G87, Pukou District, Nanjing (33% owned)

The Group participated in a joint venture with two property developers in January 2017 to own this site located in Pukou District, lying northwest across the Yangtze River from downtown Nanjing, with a total GFA of approximately 98,500 square metres, to be developed into residential buildings. The joint venture project company was formed. Planning and design work has commenced.

Guangzhou and Dongguan

Huadu Jiahua Plaza, Yingbin Road, Huadu District (100% owned)

This site is close to the New Baiyun International Airport and has a total GFA of approximately 231,000 square metres. The project is a composite development with a hotel, office space and premium residential towers. The first phase of the project, covering approximately 45,000 square metres GFA, is complete and includes a hotel and

an office tower. The second phase, J Wings, has a GFA of approximately 100,000 square metres and is slated for residential development. The pre-sales for J Wings began in March 2015 and construction was completed in the same year. Market response has been encouraging, and over 95% of the units have been sold. The third phase with a GFA of approximately 60,000 square metres is planned for sales while the fourth phase with a GFA of approximately 26,000 square metres is planned for leasing. Both phases are under construction with completion expected in 2018.

Le Palais, Jianshebei Road, Huadu District (100% owned)

Located in the downtown area of Huadu, this residential development covers a total GFA of approximately 46,000 square metres and is about a 20-minute drive from the New Baiyun International Airport. The project is complete and over half of the residential units have been sold.



J Metropolis, Xinhuzhen, Huadu District, Guangzhou (99% owned)

J Metropolis is only one step away from Baiyun District and poised to benefit from the build up of new transportation network. The total GFA of this project is approximately 793,000 square metres with development to be undertaken in phases. The first phase has a GFA of approximately 77,000 square metres offering 564 residential units. The development is complete, and over 90% of the units have been sold. The second phase has a GFA of approximately 75,000 square metres offering 600 residential units. Pre-sales started in 2015, and the development was completed in 2016. Over 90% of the units have been sold. The third phase covers approximately 40,000 square metres offering 337 residential units with targeted completion in 2017. Pre-sales also started in 2015, and over 95% of the units have been sold. The fourth phase, covering approximately 34,000 square metres, is under construction and has a targeted completion date of 2017.

Silver Cove Phases I&II, Shilong Town, Dongguan (100% owned)

Located in the Xihu Village of Shilong Town, this project offers 1,547 residential units with a total GFA of approximately 202,000 square metres, including a commercial portion with a GFA of approximately 9,600 square metres. It enjoys an expansive river frontage and is within walking distance of the new Dongguan station. The development of these two phases was completed in 2016, which are well received by the market and over 75% of the residential units have been sold.

Silver Cove Phase III, Shilong Town, Dongguan (100% owned)

This project, which is under construction with completion expected by 2017, is located at Xihu Middle Road, Shilong, Dongguan. The project has a total GFA of approximately 34,000 square metres. The Group plans to launch this project to the market for sales in 2017.



J Metropolis, Guangzhou



(Top) J Wings, Guangzhou

(Bottom) Silver Cove, Dongguan

Management Discussion and Analysis

(B) Investment Properties

Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (69.6% effective interest)

This prime investment property with a total GFA of approximately 72,000 square metres continued to achieve almost full occupancy throughout 2016, achieving a satisfactory rental income for the Group.

Stanford Residences, Xinzha Road, Jingan District (100% owned)

The Group is dedicated to creating a privileged residential lifestyle environment for tenants in pursuit of high-end modern living. The Stanford Residences (Jingan), its first serviced apartment project in Shanghai, is located within the Group's luxurious residential project, Grand Summit. With a total GFA of approximately 29,000 square metres, the development offers everything from five-star management services to sophisticated and contemporary interiors that feature stylish furniture and fittings. The Stanford Residences (Jingan) offers a total of 113 units, mainly in 3-bedroom configurations, as well as duplexes and penthouses. With its serviced apartments well received by its tenants, it was awarded in 2016 among others, the "Serviced Apartment of the Year (年度最佳服務式公寓)".

Certain portions of The Palace and Azure will be added to the serviced apartments portfolio managed under the "Stanford Residences" brand upon completion in 2017 with some units in these projects be allocated as serviced apartments and launched to the market for rental.

Office project, Suhe Creek, Jingan District (53.61% owned)

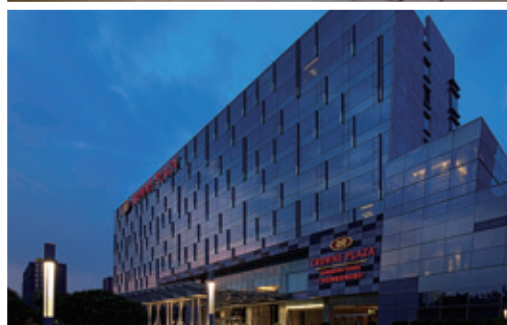
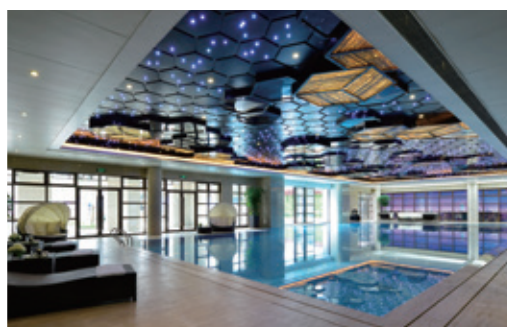
Development of this site located by the Suhe Creek in Jingan District with a total GFA of approximately 20,000 square meters into an office building, with some areas for cultural and commercial activities, was resumed in the last quarter of 2016 after it was being cleared from the construction of metro lines numbered 8 and 12. Government approval for the project's master design plan was granted and construction is expected to start in 2017.

Investment in GEG

The Group maintains a non-current investment of 162 million shares, or an approximate 3.8% interest, in GEG carried at fair market value. As of 31 December 2016, the share price of GEG was HK\$33.8 compared with HK\$24.5 as of 31 December 2015. The change in fair value of approximately HK\$1,519 million was directly recorded as an increase in reserve.



Shanghai K. Wah Centre



(Top) Grand Summit, Shanghai

(Bottom) Crowne Plaza Guangzhou Huadu

OUTLOOK AND STRATEGY

Global and Asian economies

The U.S. economy is expected to continue to grow in 2017 with the consensus forecasts of GDP growth at around 2.3%, compared to 1.6% for 2016. Further interest rate hikes in the U.S. are expected after a 0.25% hike in December 2015 and 2016, and March 2017 respectively. However, the pace of any further increase in U.S. interest rates will be subject to global economic development and to the volatility in the financial and commodity markets as well as the policies to be adopted by the new U.S. government and their consequential impacts. The Eurozone, on the other hand, will continue to struggle to remain on its recovery course which may become more uncertain in view of the various general elections there and the progress of negotiation between U.K. and the Eurozone countries on the Brexit in 2017.

Under the “new normal” in Mainland China, economic growth will be slower but aims to be more sustainable. GDP growth for 2017 is targeted by the Chinese Government to be 6.5%, compared to 6.7% achieved in 2016. Hong Kong GDP is however forecast to experience higher growth in 2017. Although the trade, tourism and retail sectors are expected to continue to face challenges in 2017, the Hong Kong Government anticipates a GDP growth rate of 2–3% in 2017 compared with 1.9% in 2016.

The property market in Hong Kong and Mainland China

Consumer demand in the small unit size and upmarket segments of the Hong Kong residential market outperformed that for the upgrader sector in 2016 due to the restrictive measures by the Hong Kong Government in setting designated loan-to-value ratio caps and levying higher stamp duties, particularly, after the increase of ad valorem stamp duty to 15% in October 2016, and these measures are expected to continue in 2017. The overall residential market price however seems unaffected and remains on the upward trend commenced in March 2016. It is expected price will remain stable in 2017.

Generally speaking, the residential property market in Mainland China remained solid throughout 2016 with first and second tier cities performing well, supported by strong demand. In 2016, average transacted prices in Shanghai recorded a nearly 20% increase although there was a slight decrease in GFA by less than 7% sold in the primary residential market mainly due to supply was about 34% less. It was recently emphasized by the Chinese Government that residential properties are for owner's use, not for speculation. It is expected that tightening measures will remain during 2017, with a focus on controlling home prices. There may be more measures to stabilize home prices when necessary. Liquidity in the market may be tightened but still remains adequate. In addition, the strong sales-to-supply ratio in the physical market in 2016 helped in reducing inventories in key cities. This will help holding average transacted prices stable in 2017 while sales may remain slow in the first half.

It is expected that the land markets, both in Hong Kong and Mainland China, will remain competitive with property developers looking for land replenishment proactively.

Management Discussion and Analysis

Project sales and progress

Hong Kong

In Hong Kong, the Group has obtained pre-sale consent in late 2016 for the launch of K. City, 100% owned by the Group, which is located in the Kai Tak Development Area near the future Kai Tak MTR Station of the Shatin to Central Link. Pre-sales of the project were commenced in February 2017 with an overwhelming market response, but sales results are not expected to be recognised until 2018.

During 2017, we will continue to market available units in Chantilly and Twin Peaks, as well as our joint venture projects The Spectra, Marinella, Providence Bay, Providence Peak and Mayfair By The Sea I.

Yangtze River Delta

In Shanghai, we will continue to market available units in Grand Summit and The Palace Phases I & II, and to launch a new batch of units in The Peak, Nanjing. Depending on project progress, we will launch Windermere in Qingpu District and Azure in Pudong District, both in Shanghai, in 2017. Sales results of these projects are expected to be recognised in the year except for the results of The Peak which will be in 2018.

Pearl River Delta

In Guangzhou, we will continue to sell the available units in Le Palais, The J Wings, J Metropolis Phases I, II and III in Guangzhou and Silver Cove Phases I and II in Dongguan. Depending on project progress, we also plan to launch the third phase of Huadu Jiahua Plaza, J Metropolis Phase IV and Silver Cove III in the second half of 2017. Sales results of these projects are expected to be recognised in the year except for the results of the third phase of Huadu Jiahua Plaza which will be in 2018.

Land-bank replenishment

The Group successfully won the tender for the New Kowloon Inland Lot No. 6566, Kai Tak Area 1K Site 2 in Hong Kong in December 2016 with a total land premium of HK\$5,869 million. The Group was also in December 2016 awarded under auction a residential/commercial land site in Jiangning District, Nanjing with a total land premium of RMB1,360 million. The Group also participated in a joint venture for 33% of its equity interest in January 2017 to develop a residential land site in Pukou District, Nanjing with our share of land premium of RMB336.6 million. Despite keen competition for land among property developers, the Group will continue to exercise discipline and sound judgment in our landbank replenishment.

Recurring income

Our stated strategy has been to increase the recurring income of the Group, both to reduce earnings volatility and to underpin our annual dividend payments.

Following the commencement of operation of the serviced apartment Stanford Residences (Jingan) in Shanghai in 2015, the GFA of the Group's investment property portfolio was increased from approximately 100,000 square metres to approximately 130,000 square metres. Additional units of approximately 26,000 square metres of the second phase of The Palace and approximately 13,000 square metres of Azure, both luxury developments located in prime Shanghai locations, will be converted into serviced apartments and added to its investment property portfolio in 2017.

The Group has also commenced marketing for tenants recently for the commercial portion of Silver Cove with a GFA of approximately 9,600 square metres.

We will increase the total GFA of the recurring income portfolio in the next few years up to around 200,000 square metres.

Finally, dividend income derived from our approximate 3.8% interest in GEG will further augment our recurring income.

Conclusion

The global economy is expected to face various challenges and uncertainties in 2017 arising from the policies to be adopted by the new U.S. Government and the general elections in Europe, which may affect the unity of Eurozone countries. Strong recovery in economic activity is not expected. Volatility in the financial, currency and commodity markets will persist. Despite the various restrictive measures in the Hong Kong and Mainland China property markets, the strong underlying residential demand in both markets and the Group's quality projects, however support the Group's view that conditions are still favourable in both markets for our continued sales activities. The Group sees property prices well supported in Hong Kong and the first and second tier cities in Mainland China where the Group operates. Consequentially, we expect to proceed with the launch of the new projects as stated above timely. On the other hand, we will continue to look for new landbank opportunities in Hong Kong, the Yangtze River Delta and Pearl River Delta regions while it is expected that keen competition will be seen among property developers in both Hong Kong and Mainland China.

REVIEW OF FINANCE

Financial Position

The financial position of the Group remained healthy throughout the year. As of 31 December 2016, total funds employed (comprised of total equity and total borrowings and guaranteed notes) were HK\$38 billion (2015: HK\$36 billion). The number of issued shares of the Company increased to 2,956,748,603 as of 31 December 2016 (2015: 2,839,597,270) as a result of the issuance of scrip dividends and exercise of share options during the year.

Group Liquidity, Financial Resources and Gearing Ratio

The Group monitors its liquidity requirements on a short- to medium-term basis, and arranges refinancing of the Group's borrowings when appropriate. As of 31 December 2016, the Group's borrowings of bank loans and guaranteed notes were HK\$11,013 million. The maturity profile is spread over a period of up to five years, with 28% repayable within one year and the remaining 72% repayable after one to five years. The average interest rate for the Group during the review year was approximately 2.7%.

As of 31 December 2016, the Group had available undrawn committed facilities totaling HK\$11,785 million comprising HK\$7,340 million for working capital and HK\$4,445 million for project facility purposes.

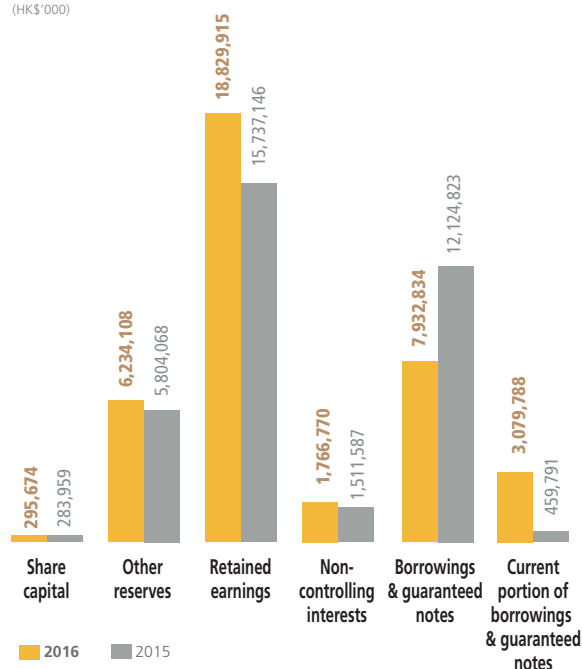
As of 31 December 2016, cash and bank deposits stood at HK\$7,248 million, and approximately 67% was held in Renminbi.

The gearing ratio, defined as the ratio of total borrowings and guaranteed notes less cash and bank deposits to total equity, stayed at 14% as of 31 December 2016 (2015: 35%).

A 5-year revolving credit and term loan totaling HK\$8 billion was executed in January 2017 for refinancing at lower cost and additional available funding source to enhance the Group's liquidity.

Sources of Funding

As at 31 December 2016
(HK\$'000)



Management Discussion and Analysis

Treasury Policies

The Group continues to adopt a prudent approach regarding foreign exchange exposure in order to minimise risk. Forward foreign exchange contracts are utilised when considered appropriate and when attractive pricing opportunities arise to mitigate foreign exchange exposures. Interest rate swap contracts are also utilised as appropriate to avoid the impact of any undue interest rate fluctuations on the Group's operations.

Of the Group's bank loans and guaranteed notes of HK\$11,013 million as of 31 December 2016, approximately 96% was denominated in Hong Kong dollars after hedging, with the remainder in Renminbi. Approximately 68% of such borrowings and notes was on a floating rate basis, with the remainder on a fixed rate basis after hedging.

Charges on Group Assets

As of 31 December 2016, certain subsidiaries of the Group pledged assets (comprising investment properties, development properties, leasehold land and land use rights, and buildings) with aggregate carrying values of HK\$12,284 million (2015: HK\$12,078 million) to banks in order to secure the Group's borrowing facilities.

Guarantees

As of 31 December 2016, the Company has executed guarantees in favour of banks and financial institutions with respect to facilities granted to certain subsidiaries and joint ventures, amounting to HK\$18,513 million (2015: HK\$21,039 million) and HK\$117 million (2015: HK\$117 million), of which facilities totaling HK\$7,517 million (2015: HK\$8,902 million) and HK\$117 million (2015: HK\$117 million) had been utilised respectively.

In addition, certain subsidiaries of the Company provided guarantees amounting to HK\$1,473 million (2015: HK\$564 million) in relation to mortgage facilities granted by banks to the mortgage loans arranged for purchasers of the Group's properties.

The Company has executed a guarantee in favour of the Hong Kong Government with respect to the performance obligation of an investee company under contract with the Hong Kong Government.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2016, the Group, excluding its associated companies and joint ventures, employs 936 employees in Hong Kong, Mainland China and Singapore. Employee costs, excluding Directors' emoluments, amounted to approximately HK\$329 million for the year under review.

The Group believes its long-term growth and success depend upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to offer competitive remuneration packages to attract, retain and motivate talents. With result-driven incentive programmes which are built upon our established performance management framework, the Group believes the remuneration packages of its employees are fair, reasonable and competitive in relation to comparable organisations with similar business interests.

The Group has put in place a share option scheme for its executives and employees since 1989 for the purposes of providing competitive remuneration package as well as retaining talents in the long term. The Group puts emphasis on employees' training and development opportunities which form an important component of the Group's human resources strategy. Training and development programmes are provided through internal and external resources in each year to address the needs of our employees for the sustainable development of our businesses.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Group had prepared a report for 2016 in compliance with Appendix 27 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("HK Stock Exchange") on "Environmental, Social and Governance Reporting Guide". Highlights of the Group's environmental, social and governance policies and the performance are shown as below:

The Group endeavours to execute operations in a manner which ensures the sustainability of our resource reserves and the preservation of our environment. As an integrated property developer, the company strives to take extensive account of sustainability considerations from the design and planning to the construction phase of a project. Within our Hong Kong portfolio, the Twin Peaks and The Spectra are noteworthy projects which have achieved the BEAM green building accreditation from the Hong Kong Green Building Council. With our Mainland China projects, environmental stewardship is articulated in the building design, advocating practices such as the incorporation of efficient lighting and water preservation systems.

Our approach to waste management entails the best practices of the industry. Both our Hong Kong and Mainland China projects are stringently governed by the waste disposal statutory requirements of each region. In Hong Kong, all contractors are required to conduct operations as stipulated in the "Best Practice Guide for Environmental Protection on Construction Sites" provided by the Hong Kong Construction Association. The Company offices contribute to domestic waste reduction via strict waste-sorting programmes whereby as much as 30% reduction was achieved at the Shanghai K. Wah Centre.

The Company continues to take steps to minimise energy usage and carbon emissions across its offices in Hong Kong and Mainland China. Demand-controlled cooling systems, coupled with more efficient lighting retrofits has made substantial contributions. Aggregate performance figures are disclosed in our ESG Report for the reporting year.

Management Discussion and Analysis

Account of Key Relationships with Employees, Customers and Suppliers

The Company seeks to drive and maintain positive relationships with our key stakeholder groups, by taking their interests and needs into full account.

Employees

Our employees work hard to deliver quality solutions to the growing needs of the property development sector. The increase in business has resulted in us growing by 20% since 2012 in order to meet this demand. The Company continues to offer all our employees competitive remuneration and benefits, which are in line with transparent policies rewarding merit-based performance. We embrace diversity in our workplace, reflected by our commitment to a talent acquisition process that does not tolerate discrimination in any form. This is exemplified by our relatively even workforce distribution in terms of gender and age group. The Company continues to invest in the further development of our employees, through internal programmes as well as via sponsorships for relevant external courses.

The provision of a workplace that does not jeopardize employee safety is of our paramount concern. Our projects in Hong Kong and Mainland China are required to adhere to statutory regulations governing safety standards. Each region ensures strict compliance via contractor screenings and periodic audits.

Customers

To continually exceed the expectations of our customers, the company embeds quality control in different operation procedures. In Hong Kong, a strict pre-qualification exercise ensures selected contractors are ISO 9000 quality management system certified, and continuous quality assessment is headed by a commissioned professional. Our projects in Mainland China employ similar quality assurance mechanisms through Standard Operating Procedures which govern all projects from inception to completion.

The highest ethical standards underpin our business conduct with our customers. The Company seeks to deliver transparency consistently by upholding all relevant advertising and data privacy standards.

Suppliers

The Company demonstrates corporate responsibility by extending our sustainability values throughout our supplier chain. In our pre-qualification procedures, suppliers that engage in the management of environmental and social risks are given higher priority. Their stringent quality control and audit procedures are also crucial criteria in the selection of competent suppliers.

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

In the reporting year, the Company recorded no cases of non-compliance with relevant standards, laws and regulations on anti-corruption, occupational health and safety, environment, and data privacy in Hong Kong and Mainland China.



THE PALACE
SHANGHAI

Management Chatroom



Back row, from left: Alexander Lui Yiu Wah; Dr Moses Cheng Mo Chi; Wong Kwai Lam; Au Man Chu
Front row, from left: Paddy Tang Lui Wai Yu; Dr Lui Che-woo; Dr Robin Chan Yau Hing; Dr William Yip Shue Lam

1. US interest rates are likely to rise faster than market expectations, which could cause investors to expect higher yields from the equity market. Will this affect the dividend policy of the Group?

The Group bases its dividend payment not only on consideration of external economic factors but also its profitability, cash flow, long-term development strategy and the competitiveness of its dividend compared with the market.

The Group is committed to rewarding its shareholders and providing stable returns to investors. The Group has been making annual dividend payments of HK\$0.15 per share for three consecutive years since 2012. The payment increased to HK\$0.17 per share in 2015 and HK\$0.18 per share in 2016, providing a satisfactory dividend yield to shareholders.

2. The participation of Mainland property developers in new tender bids in Hong Kong has been on a rising trend during the past few years. Their successes on bidding for new sites has increased correspondingly. Will this trend affect KWIH's land bank replenishment policy in Hong Kong?

Hong Kong is one of the world's freest economies. Hong Kong also has a competitive edge with its world-class infrastructure, well-established legal system, and low and simple tax regime, which has been attracting companies from Mainland China and overseas wishing to invest and develop their businesses here.

KWIH adopts a prudent yet progressive approach when bidding on new sites. The Group has an experienced professional team, which is dedicated to examining the potential, risk and return of every new site. In the past few years, the Group has succeeded in replenishing its land bank, at the most opportune times, using this strategy.

Given its robust sales revenue and solid financial strengths, the Group will continue seeking investment opportunities and developing sites with potential in Hong Kong, the Yangtze River Delta and Pearl River Delta regions in order to facilitate its business expansion and consolidate its presence in these areas.

3. **The Group secured a new site at the Kai Tak Development Area. What is the outlook for that area?**

KWIH acquired Kai Tak Area 1K Site 2 in East Kowloon in December 2016 for HK\$5,869 million. The project, which is situated at the heart of the Kai Tak Development Area, will enjoy comprehensive infrastructure facilities, including the Kai Tak Station of the MTR Shatin to Central Link, Kai Tak Sports Park and Metro Park, all of which are in the pipeline. The area has been designated by the government as an alternative core business district for Hong Kong. The Group believes this project will attract demand from both end-users and investors, giving this area strong potential for further development.

The Group launched K. City at Kai Tak in February 2017 and received an overwhelming market response. Up to 18 March, more than 600 units were sold and generated more than HK\$6 billion sales proceeds. Word of mouth has been growing for K. City. We believe this will have a positive effect for the new project.

The Group remains optimistic about the stable development of the property market over the long term, based on Hong Kong's sound fundamentals, strong availability of funds and consistently high demand for housing properties by residents. The Group will continue to bid on new sites in this area and increase asset churn.

4. **The Group bought two development projects in Nanjing in December 2016 and in early 2017. What is the outlook for Nanjing from the Group's perspective and the sales plan for its projects in Mainland China?**

The Group acquired a premium site and participated in the development of another premium site in Nanjing in December 2016 and earlier this year respectively. The first is a residential/commercial site at G89 Jiangning District (a traditional residential area with well-developed facilities) next to the Nanjing South Railway Station. The second is a residential site at G87 Pukou District, an area designated for high-tech companies and innovative ventures focusing on scientific research and technological development. The site has access to strong educational facilities, such as Southeast University one kilometre to the north. Both projects have strong potential for further expanding the Group's business in Nanjing and consolidating our presence in the Yangtze River Delta, while providing support for future development.

We are optimistic about the prospects for the property market in Mainland China and will continue to launch new projects subject to market conditions, with a view to driving our sustainable, long-term business development. Based on the strong sales in 2016 of two luxury residential projects in Shanghai, The Palace II and Grand Summit, we will launch The Palace III, Windermere, a low density residential project in Zhujiajiao, and Azure, a quality residential project in Jinqiao, Pudong District. In Guangzhou, Huadu Jiahua Plaza Phase III and J Metropolis Phase IV are expected to be released in the market. Given the outstanding sales for Silver Cove Phases I and II in 2016, the Group plans to launch Silver Cove Phase III in Dongguan. The Peak, the Group's first residential project in Nanjing, was launched in September 2016 with good response. A new batch of units is planned to be released in the market this year.

Management Chatroom

5. In Shanghai, two additional serviced apartments in the investment properties portfolio will become operational in 2017. What is the Group's strategy for its investment properties?

The Group is striving to increase the GFA of its investment property portfolio to 200,000 sqm to enhance recurrent income, generate stable cash flow and ensure stable dividend payments for shareholders.

The Group is achieving its goal of increasing its number of recurrent income properties, on top of its existing portfolio of properties that generate recurring income: Shanghai K. Wah Centre, Stanford Residences Jing An, J SENSES in Hong Kong, and Crowne Plaza Guangzhou Huadu as well as office properties.

In line with the Group's uncompromising standards of quality and premium services, Stanford Residences has earned strong market recognition and tenant popularity. Since its launch, Stanford Residences Jing An has attracted tenants such as executives of Fortune 500 companies and local financial institutions as well as consular staff. The current occupancy rate is more than 80%. Stanford Residences Xu Hui in The Palace and Stanford Residences Jin Qiao in Azure, will become operational in the second and fourth quarters of the year, respectively. The Group believes that the synergy between these latter projects will have a positive effect on Stanford Residences Jing An.

J Town, the commercial section of Silver Cove in Dongguan, is expected to become operational in the second quarter of the year, by which time our investment property GFA will increase to 180,000 sqm, as compared to 130,000 sqm at present.

6. The Group's gearing ratio was lowered to 14%. Meanwhile, a HK\$8 billion loan was closed in January this year. What is the Group's financial management policy? In its current cash-rich condition, will the Group's land replenishment policy become more aggressive?

KWIH is well-capitalised. The Group's cash and cash equivalents amounted to HK\$7,248 million, with available undrawn bank facilities of HK\$11,785 million as at 31 December 2016. Furthermore, the Group closed a HK\$8 billion 5-year revolving credit and term loan facility with a consortium of 15 banks. The Group maintains sound financials to sustain the stable development of the business.

The Group's total debt amounted to HK\$11,013 million at the end of 2016. We maintain a portfolio of debt with maturity ranging from less than one year to five years while controlling interest costs. Most of the debt is denominated in Hong Kong dollars to mitigate the impact of RMB volatility on the Group.

Our strong financial position will support us as we continue to replenish our land bank for premium projects in Hong Kong, the Yangtze River Delta and Pearl River Delta regions in accordance with our prudent yet progressive approach.

Investor Relations



KWIH is a constituent of Hang Seng Composite MidCap Index and MSCI China Small Cap Index, respectively. KWIH is also an eligible stock under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect programmes.

KWIH is committed to maintaining close communication with investors. We ensure effective and timely dissemination of information through the application of advanced IT facilities. Apart from announcements, press releases and reports of results published on our official website, we also post our information through online media, such as Facebook, LinkedIn, Youtube and Wechat, so that investors around the world would be able to obtain our latest corporate information and updates on our Group's financial status, development plans and business strategies. The Group also regularly organizes results presentations, investor conferences, one-on-one

meetings and site visits. These enable an effective two-way communication for our management and the investment community to exchange ideas and establish a close relationship.

KWIH enjoys regular analysts' coverage by a number of international securities houses as well as frequent reports and recommendations by stock commentators and financial media. In addition, the KWIH Annual Report 2015 won the Bronze Award in the "Real Estate Integrated Development and Investment" category of the International ARC Awards, while the Group also secured the "QuamIR Awards — Main Board Category 2016" and the "Outstanding Corporate Governance Award 2016" hosted by QuamIR Limited and Quamnet, respectively, underpinning strong market recognition for our Group's positive relations with investors and the transparency and accuracy of our information disclosure.

Corporate Citizenship

Building long-term, interactive relationships with the community and employees represents one of the priorities of KWIH, as we believe such lasting relationships form the cornerstone of the Group's sustainable development. In the spirit of giving back to society from which we are benefitted, the Group spares no effort in making contributions to the community on multiple fronts on top of its business pursuits, with a genuine wish to enrich lives with positive energy and benevolence.



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- 1) KWIH was one of the key sponsors of Hong Kong's first homebuilt and registered aircraft "Inspiration", which was assembled with help of hundreds of local students. Inspiration embarked on a round the World journey on 28th August 2016 after eight years of diligent work.
- 2) KWIH donated to Shanghai Jiao Tong University to support its development of China Institute for Urban Governance and the establishment of "K. Wah Big Data Centre".
- 3) KWIH donated to the Jia Hui Cheng School in Huadu District, Guangzhou, to strengthen a student-oriented education system while providing support to teachers and students in need.
- 4) Keen volunteers from the K. Wah Huicheng Staff Club provided company to the elderly and taught them the healthy "five-finger exercise" at the Golden Bridge Home, Guangzhou, bringing much care and happiness to them.
- 5) KWIH staff brought stationery and leisure items to visit Jilin Primary School, Yunfo City, Guangdong, to express care for the left-behind children.



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- 6) Staff with cooking talents were invited in the "K. Wah Master Chef 2016". The contestant teams demonstrated their creativity and unrivaled team spirits in creating wonderfully unique dishes.
- 7) As the Honorary Patron of Opera Hong Kong, KWIH aims to raise public appreciation of opera and other performing arts through quality productions as well as educational and outreaching programmes in the community.
- 8) Shanghai staff participated in K. Wah Fun Sports Day 2016 with enthusiasm in building friendships and fostering team spirit.
- 9) Our staff in Shanghai participated in the SHKA Charity Walk For A Million to raise funds for the left-behind children to pursue education.
- 10) KWIH's dragon boat team took part in the International Dragon Boat Race 2016 held in Stanley and showed exceptional team spirit to finish strongly.

Corporate Governance Report

As at 21 March 2017

The Board presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2016.

The objective of the management structure within the Group — headed by our Board and led by the Chairman — is to deliver sustainable value to our Shareholders. To this end, good corporate governance plays a significant role.

The Board has applied the code provisions ("CPs") in the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("HK Stock Exchange") during the year.

BOARD OF DIRECTORS

The Board Led by the Chairman, the Board as the highest governing body of the Company has the responsibility for leadership and control of the Group. The Board sets the strategy of the Group and approves the annual operating budget prepared and presented by the management for achieving the Group's strategic objectives.

Chairman and Managing Director Dr. Lui Che-woo currently takes the roles of both the Chairman and the Managing Director of the Company. He leads the Board and oversees the day-to-day management of the Group. The Chairman has encouraged all Directors, especially the NED and the INEDs to express their opinion freely before proposing the resolutions for voting.

Board Composition The Board currently comprises 9 Board members: the Chairman and Managing Director, 3 other executive Directors ("EDs"), one non-executive Director ("NED") and 4 independent non-executive Directors ("INEDs"); with one of the INEDs has accounting professional qualification. The biographical details of the current Directors are set out on pages 47 to 50 of this annual report as well as on the website of the Company. The list of Directors with their roles and functions is also disclosed on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx") respectively.

The EDs are employees of the Company who carry out executive functions in addition to their duties as Directors. They are collectively responsible for promoting the success of the Company by directing strategic objectives, developing strategic plans and overseeing the day-to-day management of the Group's business to ensure the efficient disposition of the Group's resources for the achievement of the strategic objectives set by the Board.

The NED and INEDs are not employees of the Company and do not participate in the daily management of the Group's business. Our NED and INEDs bring external perspectives, constructively challenge and help develop proposals on strategies, scrutinize the management in meeting agreed goals and monitor performance reporting. Through their wealth of experience across a number of industries and business sectors, our NED and INEDs contribute valuable views and proposals for the Board's deliberation and decisions.

Board Practices In 2016, the Board held 4 regular Board meetings at approximately quarterly intervals and the dates of which had been scheduled at the beginning of the year. Notice of at least 14 days in advance was given for convening a regular Board meeting. The Directors actively participated in person at each Board meeting to consider and, if appropriate, approve the annual budget and to review the business progress against the budget. Matters requiring Board consents were given by vote at the Board meeting where Board members acted collectively as a unit. The Chairman also encourages and allows all Directors to have sufficient time to raise questions on each agenda item during the meeting. Between scheduled Board meetings, routine/operational matters were considered and approved by the Board via the circulation of written resolutions with supporting materials, explanatory write-ups from the Company Secretary or briefings from the management as appropriate.

The Company has a set of comprehensive induction materials for newly appointed Directors. The Company Secretary has regularly updated Directors on compliance developments. All Directors have access to the advice and services from the management and the Company Secretary with a view to ensuring that Board procedures, and applicable rules and regulations, are followed. There are also arrangements in place for providing continuous professional development training (including attendance at external forums or briefing sessions and delivering of speeches on the relevant topics) and relevant reading materials to Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. There is satisfactory attendance at Board meetings, Board Committee meetings and the meetings between the Chairman and the INEDs and the general meeting during the year 2016. The Company receives notification from each Director on an annual basis a list showing the nature of offices he holds in other public listed companies and organizations and other significant commitments and also indication of the respective estimated time involved.

The Company has arranged appropriate directors' and officers' liability insurance cover in respect of potential legal actions against their risks and exposure arising from the Group's business and activities.

Our NED and INEDs are either veteran professionals or businessmen who have brought not only a wide range of skills and experience to the Group but also independent judgment to bear on issues of strategy, performance, risk and people through their contributions at Board meetings and also at meetings of the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee") of the Company.

The Board has procedures in place to ensure that conflict of interest will be resolved in accordance with the spirit and requirement of CP A.1.7 of the CG Code

of the Listing Rules on the HK Stock Exchange. The Company assists the INEDs with professional advice (at the Company's expenses) and management briefings for them to arrive at their recommendations on matters involving conflict of interest.

Supply and Access to Information The Company Secretary circulates meeting agenda (with arrangements for Directors to include their own items if thought fit) and supporting papers to the Directors at least 3 days in advance of a Board meeting, and attends Board meeting to assist in the proceedings.

All Directors have access to and open contact with management for any information and are entitled to have access to board papers and related materials as they require to make informed decisions on matters placed before them. Assisted by the Company Secretary, the Chairman of the Board has ensured that the Directors have been properly briefed on issues arising at Board meetings and supplied with information and papers as promptly and fully as possible. The Directors have access to independent professional advice when it becomes necessary and also the services of the Company Secretary who has been regularly updating the Directors on governance and regulatory matters. The service of independent professional advice at the Company's expense is also available to the members of the Audit Committee, Remuneration Committee and Nomination Committee. The external auditor, PricewaterhouseCoopers ("PwC"), attended all the Audit Committee meetings as well as Board meetings convened for approving annual and interim results.

The Company Secretary has kept all the minutes of Board meetings, which together with any supporting board papers, are available for all Board members for inspection. These minutes recorded matters considered by the Board and views expressed by the Directors. Draft and final versions of these minutes are sent to all Directors for their comments and records respectively, in both cases, within a reasonable time after each meeting.

Corporate Governance Report

As at 21 March 2017

Directors' attendance at Board and other meetings in 2016 is as follows:

Name of Directors	Meetings attended/Eligible to attend				
	Board Meeting (4)	Audit Committee Meeting (2)	Remuneration Committee Meeting (1)	Nomination Committee Meeting (1)	Annual General Meeting (1)
Executive Directors					
Lui Che-woo (Chairman & Managing Director) ¹	4/4	N/A	1/1	1/1	1/1
Francis Lui Yiu Tung ²	0/4	N/A	N/A	N/A	0/1
Paddy Tang Lui Wai Yu ³	4/4	N/A	N/A	N/A	1/1
Alexander Lui Yiu Wah ⁴	4/4	N/A	N/A	N/A	1/1
Non-executive Director					
Moses Cheng Mo Chi	4/4	2/2	N/A	N/A	1/1
Independent Non-executive Directors					
Robin Chan Yau Hing	3/4	N/A	N/A	N/A	0/1
William Yip Shue Lam	4/4	2/2	1/1	1/1	1/1
Au Man Chu	4/4	2/2	N/A	N/A	1/1
Wong Kwai Lam	4/4	N/A	1/1	1/1	1/1
Total	31/36	6/6	3/3	3/3	7/9
Average attendance rate	86%	100%	100%	100%	78%

1. Dr. Lui Che-woo is the father of Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah.
2. Mr. Francis Lui Yiu Tung is the son of Dr. Lui Che-woo, the younger brother of Ms. Paddy Tang Lui Wai Yu and the elder brother of Mr. Alexander Lui Yiu Wah.
3. Ms. Paddy Tang Lui Wai Yu is the daughter of Dr. Lui Che-woo, the elder sister of Mr. Francis Lui Yiu Tung and Mr. Alexander Lui Yiu Wah.
4. Mr. Alexander Lui Yiu Wah is the son of Dr. Lui Che-woo, the younger brother of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Appointment, Re-election and Removal All our NED and INEDs are appointed for a specified term of 3 years, subject to re-election by Shareholders at the annual general meeting of the Company.

In accordance with the Bye-laws of the Company, other than the Chairman and the Managing Director of the Company, one-third of the Directors for the time being (or the number nearest one-third) shall retire by rotation, but can stand for re-election, at each annual general meeting of the Company. At the forthcoming 2017 annual general meeting ("2017 AGM") of the Company, Mr. Francis Lui Yiu Tung (ED), Ms. Paddy Tang Lui Wai Yu (ED) and Dr. William Yip Shue Lam (INED) will retire by rotation and, being eligible, will offer themselves for re-election.

Particulars of the said retiring Directors and the recommendation of the Board for their re-election are set out in a circular accompanied with this annual report for being despatched to the Shareholders.

Confirmation of Independence The Board considers all of its INEDs independent in character and judgment as within the guidelines under Rule 3.13 of the Listing Rules. In reaching its determination, the Board has concluded that there are no relationships or circumstances that are likely to affect any INED's judgment. In accordance with Rule 3.13 of the Listing Rules, each of the 4 INEDs determined by the Board as independent has provided an annual written confirmation of his independence to the Company. The Company has identified its INEDs as such in all its corporate communications to the Shareholders.

Directors' Induction and Continuous Professional Development

All Directors has participated in continuous professional development training (including attendance at external forums or briefing sessions, delivering of speeches and in-house seminars on the relevant topics) and have been provided with relevant reading materials to ensure they are apprised of the latest changes on the relevant laws, rules and regulations to further strengthen their knowledge and skills on their roles, functions and duties. The Company from time to time provides written training materials and latest development of the Listing Rules, applicable laws, rules and regulations relating to the Directors' duties and responsibilities.

During the year under review, the Company at its own expenses had provided Directors with written training

The Company has maintained records of training provided for each Director, summarized as follows:

Members of the Board	Attending Seminars	Reading Materials
Executive Directors		
Lui Che-woo (Chairman & Managing Director)	(1),(2),(4)	(3)
Francis Lui Yiu Tung	—	(1),(3),(4)
Paddy Tang Lui Wai Yu	(1),(2),(3),(4)	—
Alexander Lui Yiu Wah	(1),(2),(3),(4)	—
Non-executive Director		
Moses Cheng Mo Chi	(1),(2)	(3),(4)
Independent Non-executive Directors		
Robin Chan Yau Hing	(4)	(1),(3)
William Yip Shue Lam	(1),(2),(4)	(3)
Au Man Chu	(1),(2),(3),(4)	—
Wong Kwai Lam	(1),(2),(3),(4)	—

Model Code for Securities Transactions by Directors

The Board has adopted a code for transactions in the Company's securities by Directors and their connected persons that complies with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. Each Director has confirmed that he or she has complied with the adopted code throughout the year ended 31 December 2016. The Company has also adopted written guidelines — on no less exacting terms than the Model Code — for transactions in the Company's securities by its certain employees.

Other than the connected transaction and continuing connected transactions disclosed in the Report of the Directors, none of the Directors had, at any time during the year and up to the date of this Report or at

materials for regulatory updates and arranged in-house seminar sessions conducted by qualified professionals experienced on the following topics for the Directors and the management of the Company to attend:

- (1) seminar on "Fraud and Red Flags of Fraud";
- (2) seminar on "Biomedical Science";
- (3) seminar on "Hong Kong: A Rising City in a Sinking World"; and
- (4) seminar on "Enterprise Risk Management — A possible way forward".

the balance sheet date, a material interest, directly or indirectly, in any significant transaction, arrangement and contract of significance with the Company or any of its subsidiaries.

Corporate Governance Functions A policy for the Corporate Governance Policy including all the required terms of reference stated in CP D.3.1 of the CG Code was adopted by the Board on 22 March 2012 and is subject to review annually. The Board is primarily responsible for determining the policy for the corporate governance of the Company and performing the following corporate governance duties as required under the CG Code:

- To develop and review the Company's policies and practices on corporate governance and make recommendations;

Corporate Governance Report

As at 21 March 2017

- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group; and
- To review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

During the year under review, the Board reviewed the Policy for Nomination of Directors, the Model Code, the Corporate Governance Policy, Shareholders Communication Policy and the amounts under the annual caps on continuing connected transactions of the Group, as well as the effectiveness and adequacy of the internal control and risk management systems of the Company through the internal audit function and the Audit Committee. The Company has also established an internal policy on handling of confidential and inside information, and securities transactions for all employees of the Group to comply with the requirements under Part XIVA of the Securities and Future Ordinance when they are in possession of confidential and inside information in relation to the Group.

DELEGATION BY THE BOARD

Executive Board Within the clear guidelines which it sets, the Board has delegated to an executive board ("Executive Board") established by it, comprising all the EDs, authority to oversee the implementation of the Group's strategy set by the Board, monitor the Group's investment and trading performance as well as funding and finance requirements, and review management performance. The Board retains to itself authority on annual budgets and accounts, dividends, share capital, derivative transactions, connected transactions and transactions requiring Shareholders' approval, and

certain financing, acquisitions, disposals and operation issues above predetermined thresholds.

The Executive Board also meets regularly and operates as a general management committee under the direct authority of the Board. The Executive Board reports through the Chairman and Managing Director to the Board. The Executive Board sub-delegates day-to-day administration details to the management committees charged with specific operation tasks under the leadership of the Executive Board. Management, pursuant to the level of authority formally approved by the Executive Board, submit written proposals with detailed analysis on financial and commercial aspects and recommendations to the Executive Board for consideration and approval. When the matter exceeds the authority of the Executive Board or relates to any matters specifically reserved to the Board, it would be submitted to the Board for approval.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee The Remuneration Committee currently comprises 3 members identified in the table on page 40 (Dr. William Yip Shue Lam, Dr. Lui Che-woo and Mr. Wong Kwai Lam) and is chaired by Dr. William Yip Shue Lam (INED). The Company Secretary acts as the secretary of the Remuneration Committee, who has kept full minutes of the Remuneration Committee meetings with drafts and final versions circulating to members for their comments and records respectively within a reasonable time after the relevant meetings. The written terms of reference of the Remuneration Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

In accordance with its terms of reference, the Remuneration Committee:

- on 19 January 2016, reviewed and approved the 2015 year-ended bonus paid to EDs;
- on 21 January 2016, considered and endorsed the Executive Board's Share Option Scheme 18th Offer Proposal on granting options to (among others) Directors;

- on 17 March 2016, reviewed the level of Directors' fees for 2015 as well as remuneration packages of EDs (who also constituted senior management of the Company) for 2016;
- on 17 January 2017, reviewed and approved the 2016 year-end bonus paid to the EDs; and
- on 15 March 2017, reviewed the level of Directors' fees for 2016 as well as remuneration packages of EDs (who also constituted senior management of the Company) for 2017.

The Remuneration Committee's proposals on the EDs' remuneration packages and the Directors' fees for 2016 have been endorsed by the Board, and the proposed Directors' fees will be recommended for Shareholders' approval at the 2017 AGM. The Remuneration Committee submitted its written report and/or recommendations to the Board after its meeting.

No Director had participated in the determination of his or her own remuneration.

Details of Directors' Remuneration and Five Highest Pay Individuals of the Group for the year ended 31 December 2016 are set out in notes 12 and 13 to the 2016 Financial Statements respectively.

Nomination Committee The Nomination Committee of the Company comprises 3 members identified in the table on page 40 of whom 2 are INEDs (Dr. William Yip Shue Lam and Mr. Wong Kwai Lam) and is chaired by Dr. Lui Che-woo. The Company Secretary acts as the secretary of the Nomination Committee, who has kept full minutes of the Nomination Committee meetings with drafts and final versions being circulated to members for their comments and records respectively within a reasonable time after the relevant meetings.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals

suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; conducting assessment of the independence of each INED and the management of Board succession. In order to facilitate its functions for the nomination of procedures and the process and criteria to select and recommend candidates for directorship of the Company, a policy for nomination of directors ("Nomination Policy") had been adopted by the Board on 22 March 2012 and was revised in March 2013 to include the diversity of board members. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and other qualities of Directors. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board. The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its continued effectiveness from time to time. The Nomination Committee is also responsible for assessing the independence of INEDs and reviewing their annual confirmation on their independence. The written terms of reference of the Nomination Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

In 2016, the Nomination Committee met once in March 2016 with all members attended. At its meeting held on 15 March 2017, the Nomination Committee reviewed the structure, size and composition of the Board; assessed the independence of all INEDs; and made recommendation on the retirement and reappointment of Directors at the 2017 AGM. The Nomination Committee submitted its written report and/or recommendations to the Board after its meeting.

Audit Committee The Audit Committee is accountable to the Board and assists the Board to oversee the Company's financial reporting process and risk management and internal control systems and to review the Group's interim and annual consolidated financial statements.

Corporate Governance Report

As at 21 March 2017

The Audit Committee comprises 1 NED (Dr. Moses Cheng Mo Chi) and 2 INEDs (Dr. William Yip Shue Lam and Mr. Au Man Chu), identified in the table on page 40 and is chaired by Dr. William Yip Shue Lam. The Company Secretary acts as the secretary of the Audit Committee, who has kept full minutes of the Audit Committee meetings with drafts and final versions being circulated to the members for their comment and records respectively within a reasonable time after the relevant meetings. Regular attendees at the Audit Committee meetings are the management of the Company responsible for the accounting and financial reporting function, head of the internal audit function, and the senior representatives of PwC as the external auditor.

In 2016, the Audit Committee met twice in March 2016 for reviewing the Group's 2015 annual results and financial statements and in August 2016 for reviewing the Group's 2016 interim results and financial statements. At its meeting on 15 March 2017, the Audit Committee reviewed the Group's annual results and financial statements for 2016, the effectiveness and adequacy of the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit function. Each meeting received written reports and papers from PwC.

The written terms of reference of the Audit Committee has been revised in December 2015 to include an ongoing responsibility to oversee the Company's risk management system in compliance with the new CG Code which takes effect from 1 January 2016. The revised written terms of reference of the Audit Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

The Audit Committee was satisfied with the independence of PwC during the year and has recommended the Board to propose for the re-appointment of PwC as the external auditor of the Company at the 2017 AGM. An analysis of the fees for 2016 paid to external auditor appears in note 10 to the 2016 Financial Statements.

Company Secretary The Company Secretary is a full time employee of the Company, who reports to the Chairman and assists the Board in ensuring effective information flow among Board members and that the Board policy and procedures including those on corporate governance matters are followed. The Company Secretary had complied with Rule 3.29 of the Listing Rules during the year under review.

ACCOUNTABILITY

Financial Reporting The Board is accountable for the proper stewardship of the Group's affairs, and Directors acknowledge their responsibility for preparing the financial statements of the Company in accordance with generally accepted accounting standards in Hong Kong, the requirements of the Listing Rules and applicable laws as well as the integrity of the financial information so reported. Such responsibility is extended to cover not only the annual and interim reports but also announcements and other financial disclosures of the Company required under the Listing Rules. The external auditor has a primary responsibility for auditing and reporting on the financial statements and the Independent Auditor's Report to the Shareholders is set out on pages 61 to 64 of this annual report.

The management of individual businesses within the Group provides the Directors with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval. Starting from April 2012, the Company provided all Directors with monthly management updates giving a balanced and understandable assessment of the Company's performance, financial position and prospects to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

The Group has adopted the going concern basis in preparing its financial statements.

Risk Management and Internal Control The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems on an ongoing basis.

The Group has a clear organizational structure with well-defined responsibilities, reporting lines and authority limits and budgetary controls for managers of operating divisions. Policies and procedures are in place to effect all material controls, including financial, operational and compliance controls.

Risk management strategies have been established to help individual operating divisions manage risks facing the Group and support the Board in discharging its corporate governance responsibilities. Risk assessment exercise is performed through questionnaires and interviews with the senior executives and function heads to identify and evaluate significant risks of the Group and the results of which are reported to the Board for considering any risk mitigation actions and controls through the Audit Committee. Appropriate risk mitigation actions are being taken to manage and control individual risks.

The Board, through the Audit Committee, has reviewed the Group's risk management system annually and internal control system semi-annually which are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board's review also considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions.

The Group's Internal Audit Department has been established to carry out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. Its audit work covers all material controls, including financial, operational and compliance controls.

The Chairman of the Audit Committee has open access to the head of Internal Audit Department. During the year 2016 and up to the date of the financial statements, there were no significant control failings or weaknesses, as the Internal Audit Department so reported to the Board through the Audit Committee.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board established a shareholders communication policy in March 2012 setting out the principles of the Company in relation to its communication with the Shareholders, with the objective of ensuring the effective and timely dissemination of information to Shareholders at all times. In addition to sending annual reports, interim reports, circulars and notices to the

Shareholders, the Company also makes sure these materials, which contain extensive information about the Group's activities, timely available for access by Shareholders on both the websites of the Company and HKEx. The Company's website at www.kwih.com is also a valuable platform for investors and it contains a dedicated investor relations section offering timely and direct access to our financial reports, corporate announcements, press releases and other business information.

The Company has delegated its management specifically charged with investor relation functions. The Company responds to enquiries from Shareholders and investors on matters relating to the business of the Group in an informative and timely manner. Every year, upon announcing results, the Company holds a press conference and briefings with the investment community, and the EDs also have dialogues with institutional investors and financial analysts. In between times, the Company organizes site visits and meetings for reserved analysts in order to provide them with a comprehensive knowledge of our projects.

The Company received coverage and regular reports on its business and stock performance from leading financial commentators and analysts of local and international securities houses.

The Company encourages the Shareholders to attend annual general meetings and all its other shareholders' meetings to discuss progress and matters. The Chairman of the Board and other Directors are available at these meetings to answer Shareholders' questions. Separate resolution is proposed at general meetings of the Company on each substantially separate issue, including the election of individual directors. All the resolutions proposed at the 2016 annual general meeting ("2016 AGM") were passed by way of poll in compliance with the rules 13.39(4) of the Listing Rules. The Chairman of the 2016 AGM had at the meeting ensured that an explanation was provided for the detailed procedures for conducting a poll. The Company's branch share registrar in Hong Kong had acted as the scrutineer for the vote-taking at the 2016 AGM, the voting results of which had been announced by the Company in accordance with Rule 2.07C of the Listing Rules on the websites of the Company and HKEx respectively. The Company had sent the notice of 2016 AGM to Shareholders more than 20 clear business days before the 2016 AGM. The Chairman of the 2017 AGM (and chairman of any other shareholders' meetings) will ensure that any vote of Shareholders at the 2017 AGM (and any other shareholders' meetings) will be taken by poll in compliance with the said Rule 13.39(4) of the Listing Rules.

Corporate Governance Report

As at 21 March 2017

SHAREHOLDERS' RIGHTS

Convening a special general meeting by

shareholders Pursuant to the provisions of Section 74 of the Companies Act 1981 of Bermuda (as amended), a special general meeting may be convened by the Board of Directors upon requisition by any shareholder(s) holding not less than one-tenth of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. The requisition must state the purposes of the meeting, and must be signed by the relevant shareholder(s) and deposited at the principal place of business in Hong Kong of the Company. If the Board of Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the shareholder(s), or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Putting forward proposals at general meeting

A shareholder shall make a written requisition to move a resolution at general meeting to the Board of Directors or the Company Secretary of the Company at the principal place of business in Hong Kong of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Proposal for election of Director If a shareholder intends to propose a person other than a retiring Director of the Company for election as Director, the procedures have been set out in the Company's website.

Enquiries to the Board Shareholders may put forward their enquiries about the Company to the Board of Directors at the Company's principal place of business in Hong Kong or by email through the Investor Relations of the Company.

CONSTITUTIONAL DOCUMENTS

The Company's Memorandum of Association and Bye-laws has been published on the websites of the Company and HKEx respectively. There have been no changes in the Company's Memorandum of Association and Bye-laws since the last alternation in June 2007.

COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES

The Board and the management of the Company are committed to principles of good corporate governance consistent with prudent management and enhancement of shareholders' value. The full Board is entrusted with the overall responsibility of developing and ensuring adherence to the Corporate Governance Policy and the Shareholders Communication Policy. The Company is committed to maintaining high standards of corporate governance and enhancing corporate transparency and accountability.

Throughout the year ended 31 December 2016, the Company had complied with the CPs of the CG Code as set out in Appendix 14 to the Listing Rules, apart from the following CPs:

CP A.2.1 — there was no separation of the roles of the Chairman and the Managing Director, both of the roles are currently undertaken by Dr. Lui Che-woo. The Board is of the view that the current management structure has been effective in facilitating the Company's operation and business development and that necessary checks and balances consistent with sound corporate governance practices are in place. The implementation of strategies and policies of the Board and the operations of each business unit are overseen and monitored by designated responsible EDs. The Board found that the current management had worked effectively in enabling it to discharge its responsibilities satisfactorily. In addition, all INEDs have contributed valuable views and proposals independently for the Board's deliberation and decisions.

CP A.4.2 — Given that the other Directors do retire by rotation in accordance with the Bye-laws of the Company and the Board considers that the Group is best served by not requiring the Chairman and the Managing Director to retire by rotation as his continuity in office is of considerable benefit to the Company and his leadership, vision and profound knowledge in the widespread geographical business of the Group is a valuable asset of the Company.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Dr. Lui Che-woo, GBM, MBE, JP, LLD, DSSc, DBA, aged 87, the founder of the Group, has been the Chairman since June 1989 and is presently the Chairman and the Managing Director, a member of the remuneration committee (ceased to act as the chairman on 22 March 2012 but remains as a member) as well as the chairman of the nomination committee (appointed on 22 March 2012) of the Company. Dr. Lui is also the chairman and an executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He has over 50 years' experience in quarrying, construction materials and property development. He was the founding chairman of the Institute of Quarrying in UK (Hong Kong Branch) and the chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the founding chairman of The Federation of Hong Kong Hotel Owners, the president of Tsim Sha Tsui East Property Developers Association, the founding president of Hong Kong — Guangdong Economic Development Association and an Honorary President of Hong Kong — Shanghai Economic Development Association. Dr. Lui has been appointed as a member of Steering Committee on MICE (Meetings, Incentives, Conventions and Exhibitions) since 2007. Furthermore, Dr. Lui was a member of the 9th National Committee of the Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. In 1995, an asteroid discovered by the Purple Mountain Observatory in Nanjing was named "Lui Che Woo Star". Dr. Lui was presented the Outstanding Contribution Award in Guangzhou in 1996. Dr. Lui was awarded the Gold Bauhinia Star by the Government of the HKSAR in July 2005. Dr. Lui was also awarded the Grand Bauhinia Medal by the Government of the HKSAR in June 2012. Dr. Lui was awarded Business Person of the Year 2007 by DHL/SCMP Hong Kong Business Awards and the Lifetime Achievement Award by American Academy of Hospitality Sciences of 2007 respectively. Dr. Lui was presented the Diamond Award by Macau Tatler and the Lifetime Achievement Award by All Leaders Publication Group Limited, both in 2011. Dr. Lui was awarded

Asia Pacific Entrepreneurship Awards 2012 — Lifetime Achievement Award by Enterprise Asia in 2012 and Lifetime Achievement Award by Golden Horse Award of China Hotel in 2013. Dr. Lui was presented the Outstanding Contribution Award at the International Gaming Awards, as well as Entrepreneur of the Year at the Asian Awards in 2014. Dr. Lui was awarded the Lifetime Achievement Award by the World Travel Awards in 2015. Dr. Lui is the founder of the Lui Che Woo Prize — Prize for World Civilisation established in Hong Kong in 2015 for sustainable development of the world, welfare of mankind and promotion of positive life attitude. Dr. Lui is the father of Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah.

Mr. Francis Lui Yiu Tung, aged 61, joined K. Wah group in 1979. He has been an executive Director of the Company since June 1989. Mr. Lui is also the deputy chairman and a member of each of the executive board, nomination committee and remuneration committee as well as the chairman of corporate governance committee of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He holds a Bachelor of Science degree in civil engineering and a Master of Science degree in structural engineering from the University of California at Berkeley, USA. Mr. Lui is a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Election Committee of the HKSAR and a member of the Chief Executive Election Committee of Macau SAR. He is also a director of the 68th Term of Macao Chamber of Commerce and an Honorary Chairman of the 18th Term of Kiang Wu Hospital Charitable Association. Mr. Lui was awarded the Medal of Merit — Tourism by Macau SAR in 2012 and Asia Pacific Entrepreneurship Awards 2014 — Entrepreneur of the Year by Enterprise Asia in 2014. Mr. Lui is the son of Dr. Lui Che-woo, the younger brother of Ms. Paddy Tang Lui Wai Yu and the elder brother of Mr. Alexander Lui Yiu Wah.

Ms. Paddy Tang Lui Wai Yu, BBS, JP, aged 63, joined K. Wah group in 1980 and has been an executive Director of the Company since June 1989. She is also an executive director of Galaxy Entertainment Group

Biographical Information of Directors

Limited. Save as disclosed herein, she has no previous directorships in other public listed companies in the last 3 years. She holds a Bachelor of Commerce degree from McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Lui has been elected as a member of the Shanghai Committee of the Chinese People's Political Consultative Conference in December 2012. She was appointed as a member of board trustees of Shanghai Jiao Tong University on 30 October 2014. Ms. Lui was formerly a member of the Standing Committee on Company Law Reform, the Tourism Strategy Group, the Statistic Advisory Board, the Hong Kong Arts Development Council and the Board of Ocean Park Corporation and a non-executive director of the Mandatory Provident Fund Schemes Authority. Ms. Lui has been elected as a member of the Election Committee of the HKSAR since 1998. Ms. Lui is the daughter of Dr. Lui Che-woo and the elder sister of Mr. Francis Lui Yiu Tung and Mr. Alexander Lui Yiu Wah.

Mr. Alexander Lui Yiu Wah, aged 54, joined K. Wah group in 1984 and is presently the Managing Director of Hong Kong Properties of the Group. He has been an executive Director of the Company since April 2010. Mr. Lui is also a director of a number of affiliated companies of the Group. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He holds a Bachelor of Science degree in Industrial and Systems Engineering from the University of Southern California, USA. Mr. Lui was a committee member of Guangzhou Committee of the 11th and 12th Chinese People's Political Consultative Conference. He has been elected as a committee member of Guangdong Provincial Committee of the 11th Chinese People's Political Consultative Conference on 14 January 2013. Mr. Lui was elected as a committee member of Jiangman City Xinhui District Committee of the 13th and 14th Chinese People's Political Consultative Conference. Mr. Lui was elected as the managing vice-chairman and director of the 5th Board of Directors of Guangzhou Municipal Committee Hong Kong Members Association in January 2013. Mr. Lui was re-appointed as the managing vice-chairman of the 6th Board of Directors of Guangzhou Overseas Friendship-Liaison Association on 26 March 2013. Mr. Lui has been appointed as the deputy chairman (vice president) of the Guangdong

Federation of Industry and Commerce in PRC for the years from 2012 to 2017. Mr. Lui has been appointed as a member of Hong Kong CPPCC (Provincial) Members Association Limited on 17 April 2013. In August 2014, Mr. Lui was appointed as a director of the 3rd Board of Directors of the Association of The Hong Kong Members of Guangdong's Chinese People's Political Consultative Conference Committees. He was appointed as the executive vice-chairman of Hong Kong Guang Fo Zhao Fraternity Association (2014–2017). He is the vice president of The Hong Kong Real Estate Association. He has been a member of the board of directors of The Real Estate Developers Association of Hong Kong since 1999. Mr. Lui has been appointed as a director of Business & Professionals Federation of Hong Kong since 27 September 2002 and was re-elected as a member of the executive committee in September 2015. He was a member of The Appeal Panel on Housing, Hong Kong during the period from 1 July 2002 to 31 March 2008. He was a member of Estate Agents Authority (EAA) from 2008 to October 2014. Mr. Lui is the son of Dr. Lui Che-woo, the younger brother of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

NON-EXECUTIVE DIRECTOR

Dr. Moses Cheng Mo Chi, *GBM, GBS, OBE, JP*, aged 67, has been a non-executive Director of the Company since August 2009. He has been appointed as a member of the audit committee of the Company with effect from 31 July 2015. Dr. Cheng is a practising solicitor and a consultant of P.C. Woo & Co., a Hong Kong firm of solicitors, after serving as its senior partner from 1994 to 2015. He was also the founding chairman of The Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng was a member of the Legislative Council of Hong Kong and the chairman of the Main Board Listing Committee and the Growth Enterprise Market Listing Committee of the HK Stock Exchange and a remuneration committee member of The Financial Reporting Council in Hong Kong. Dr. Cheng is currently an independent non-executive director in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Guangdong Investment Limited, Liu Chong Hing Investment Limited and Towngas China Company Limited, all being public listed companies on the Main

Board of the HK Stock Exchange. He is also a non-executive director in Kader Holdings Company Limited and Tian An China Investments Company Limited, all being public listed companies on the Main Board of the HK Stock Exchange. He is also an independent non-executive director of ARA Asset Management Limited which is a listed company in Singapore. Dr. Cheng is also the chairman of the Insurance Authority and the chairman of the Process Review Panel for Securities and Futures Commission. On 1 July 2013, he was appointed as an independent non-executive director of OTC Clearing Hong Kong Limited (a subsidiary of Hong Kong Exchanges and Clearing Limited). Dr. Cheng had resigned as a non-executive director of Hong Kong Television Network Limited (a public listed company on the Main Board of the HK Stock Exchange) with effect from 31 August 2014. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. Dr. Cheng has ceased the chairman of both the Committee on Free Kindergarten education and the Education Commission in 2015. In addition, Dr. Cheng was awarded the Grand Bauhinia Medal by the Government of the HKSAR in July 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Robin Chan Yau Hing, GBS, LLD, JP, aged 84, has been a Director since June 1989 and has become an independent non-executive Director of the Company since 1998. Dr. Chan holds different positions in public listed companies on the Main Board of the HK Stock Exchange, including the chairman and an executive director of Asia Financial Holdings Limited and an independent non-executive director of Keck Seng Investments (Hong Kong) Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. In addition, Dr. Chan is the vice chairman of All-China Federation of Returned Overseas Chinese and the life honorary chairman of The Chinese General Chamber of Commerce, Hong Kong. He is also the founding chairman and president of the Hong Kong Federation of Overseas Chinese Associations Limited, the honorary chairman of both the China Federation of Overseas Chinese Entrepreneurs and the Federation of HK Chiu Chow Community Organizations Limited; and the executive vice chairman of the China Overseas Chinese

Entrepreneurs Association. Dr. Chan had been a deputy to The National People's Congress of the People's Republic of China from March 1988 to February 2008. He has extensive experience in the banking industry and acts as an adviser to numerous other companies. Dr. Chan was awarded the Knight Commander (Second Class) of the Most Noble Order of the Crown of Thailand by His Majesty, the King of Thailand and the Gold Bauhinia Star by the Government of the HKSAR in 2000. Dr. Chan was conferred with the Honorary University Fellowships by Hong Kong Baptist University and the University of Hong Kong in 2010 and 2011 respectively, and the Honorary Fellowship by The Hong Kong University of Science and Technology in June 2013.

Dr. William Yip Shue Lam, LLD, aged 79, has been an independent non-executive Director and the chairman of audit committee since June 2008 as well as the chairman of the remuneration committee and a member of the nomination committee (both appointed on 22 March 2012) of the Company. He holds a Bachelor of Arts degree and an honorary Doctor of Laws degree from the Concordia University, Canada. He is the founder and the chairman of Canada Land Limited ("Canada Land") since 1972. Canada Land engaged in real estate development and tourist attraction business, listed in 1994 on the Australian Stock Exchange and was privatized in May 2013. He remains as the chairman of Canada Land. Dr. Yip is also an independent non-executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He was also the chairman of Cantravel Limited, Guangzhou since 1996 and became a director in October 2013. Dr. Yip has been active in public services and has been appointed as an honorary standing committee member of The Chinese General Chamber of Commerce (November 2012–October 2022) and the president of Concordia University Hong Kong Foundation Limited and chairman of Board of Governors, Canadian University Association in Hong Kong. He had been the president (1998–2000) and currently the member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong, and the fellow member of The Hong Kong Institute of Directors. In addition, Dr. Yip has been elected a Guangzhou Municipal Honorable Citizen.

Biographical Information of Directors

Mr. Au Man Chu, aged 66, has been appointed as an independent non-executive Director and a member of the audit committee of the Company since August 2011. Mr. Au holds a Bachelor of Commerce degree from the University of Alberta in Canada and is a member of The Canadian Institute of Chartered Accountants. Mr. Au was an executive director of Noble Group Limited (a company listed in Singapore) from 1 December 1995 to 31 December 2003 and was re-designated as a non-executive director from 1 January 2004 to 16 April 2015. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. Mr. Au was a director of Hong Kong International Film Festival Society Limited since 7 December 2005 and retired from its board on 7 November 2016.

Mr. Wong Kwai Lam, aged 67, has been appointed as an independent non-executive Director and a member of the remuneration committee since August 2011 as well as a member of the nomination committee (appointed in March 2012) of the Company. Mr. Wong obtained a degree of Bachelor of Arts from The Chinese University of Hong Kong ("CUHK") in 1972 and a Ph. D from Leicester University, England in 1977. He has over 30 years of experience in the commercial and investment banking industry. He worked with Merrill Lynch (Asia Pacific) Limited ("Merrill Lynch") from May 1993 to August 2009 where he served as a managing director in the Asia investment banking division since January 1995. Mr. Wong was appointed as a senior client advisor to Merrill Lynch in September 2009 and served in that position for one year. In his 17 years of experience in various senior positions with Merrill Lynch, Mr. Wong's responsibilities included, among others, managing the overall business of its Asia investment banking division from March 2003 to May 2005. Prior to joining Merrill Lynch, Mr. Wong had been a director in the investment banking division of CS First Boston (Hong Kong) Limited and a director and the head of primary market in Standard Chartered Asia Limited. Mr. Wong is currently the chairman of IncityAdv Consultants Limited and a director of Opera Hong Kong Limited. Mr. Wong has been appointed as a member of the investment sub-committee and a vice chairman of the Board of Trustees of New Asia College of CUHK. Mr. Wong is an independent non-executive director and chairman of the remuneration and appraisal committee and a member of the audit committee of

China Merchants Bank Company Limited (a public listed company on the Main Board of the HK Stock Exchange and The Shanghai Stock Exchange). Mr. Wong is also an independent non-executive director and a member of the audit committee and designated (finance) committee of ARA Asset Management (Prosperity) Limited as the manager of Prosperity Real Estate Investment Trust (a publicly-listed company on the Main Board of the HK Stock Exchange). In April 2013, Mr. Wong was also appointed as an independent non-executive director of Langham Hospitality Investments and Langham Hospitality Investments Limited ("LHIL") (a publicly-listed company on the Main Board of the HK Stock Exchange) and LHIL Manager Limited ("LHIL Manager") which is the trustee-manager of Langham Hospitality Investments. Mr. Wong is the chairman of the audit committee of LHIL and LHIL Manager, and a member of the remuneration committee and nomination committee of LHIL. In December 2015, Mr. Wong has been appointed as an independent non-executive director of both Hutchison Port Holdings Trust ("HPH Trust") (a company listed in Singapore) and Hutchison Port Holdings Management Pte. Limited (as the trustee-manager of HPH Trust). In addition, Mr. Wong was appointed as a member of the Hospital Governing Committee of The Prince of Wales Hospital, Hong Kong in April 2013 and has also been appointed as a director of CUHK Medical Centre Limited effective in February 2016. He was formerly a member of the Advisory Committee to the Securities and Futures Commission in Hong Kong, a member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee to the Hong Kong Trade Development Council. Save as disclosed herein, he has no previous directorships in other publicly-listed companies in the last 3 years.

SENIOR MANAGEMENT

Assisted by head of departments, the executive Directors are under the direct responsibilities for the business and operations of the Group and the executive Directors are therefore regarded as the senior management of the Company.

Report of the Directors

The Directors have pleasure in presenting to the Shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 ("2016 Financial Statements").

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Our principal subsidiaries, joint ventures and associated companies are primarily engaged in property development and property investment in Hong Kong, Mainland China and Singapore, and their activities are set out in note 42 to the 2016 Financial Statements.

Further discussion and analysis of these activities, including a fair review of the Group's business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2016, and an indication of likely future development in the Group's business, can be founded in the sections headed "Five Years Summary", "Statement from the Chairman", "Management Discussion and Analysis", "Management Chatroom", "Corporate Citizenship", "Investor Relations" and "Corporate Governance Report" of this annual report as well as the Environmental, Social and Governance Report available on the websites of both Hong Kong Exchanges and Clearing Limited and the Company. The above sections form part of this Report of the Directors.

RESULTS AND APPROPRIATIONS

The 2016 Financial Statements on pages 65 to 130 of this annual report set out the results of the Group for the year ended 31 December 2016.

An interim scrip dividend (with a cash option) of HK\$0.05 per ordinary share of the Company ("Share") was paid during the year. The Board recommends the payment of a final scrip dividend (with a cash option) of HK\$0.13 per Share. Together with the interim dividend paid, the total dividends per Share for the year amount to HK\$0.18

(2015: HK\$0.17 per Share). Details of dividends are set out in note 16 to the 2016 Financial Statements.

SHARES ISSUED

Note 29 to the 2016 Financial Statements contains details of the shares issued by the Company during the year and the increase in issued share capital of the Company during the year was due to exercise of options and allotment of new Shares for scrip dividends.

DEALINGS IN LISTED SECURITIES

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

EQUITY-LINKED AGREEMENTS

Save for the share option scheme described below, the Group has not entered into any equity-linked agreements during the year.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2016, calculated under Companies Act 1981 of Bermuda, amounted to HK\$1,571,039,000 (2015: HK\$1,655,277,000).

DONATIONS

During the year, the Group made charitable donations amounting to HK\$2,438,000 (2015: HK\$2,534,000).

SIGNIFICANT PROPERTIES

Details of the significant properties held by the Group as at 31 December 2016 for investment and development purposes are set out on pages 131 to 132 of this annual report.

DIRECTORS

The Directors of the Company who served during the year and up to the date of this Report of the Directors were Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, Mr. Alexander Lui Yiu Wah, Dr. Moses Cheng Mo Chi, Dr. Robin Chan Yau Hing, Dr. William Yip Shue Lam, Mr. Au Man Chu and Mr. Wong Kwai Lam.

Report of the Directors

Biographical details of the current Directors are set out on pages 47 to 50 of this annual report.

In accordance with bye-laws 109(A) and 189(viii) of the Bye-laws of the Company, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Dr. William Yip Shue Lam will retire by rotation at the forthcoming 2017 annual general meeting of the Company ("2017 AGM") and being eligible, will offer themselves for re-election.

None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Subject to the approval of Shareholders at the 2017 AGM, the following fees in respect of year ended 31 December 2016 will be paid to the Directors:

	Chairman HK\$	Member HK\$
Board	220,000	190,000
Audit Committee	140,000	120,000
Remuneration Committee	60,000	50,000
Nomination Committee	60,000	50,000

DIRECTORS' EMOLUMENTS

The emoluments of the Directors of the Company (including executive Directors and independent non-executive Directors) on a named basis are set out in note 12 to the 2016 Financial Statements.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors and officers is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate directors' and officers' liability insurance cover in respect of potential legal actions against their risks and exposure arising from the Group's business and activities.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in this Report of the Directors, no other significant transactions, arrangements and contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director or his or her connected entity has or had a material beneficial interest, whether directly or indirectly, subsisted as at 31 December 2016 or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As of 31 December 2016, the interests and short positions of each Director in the Shares, underlying Shares and debentures of the Company or any of its specified undertakings or its other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), if any, and the details of any right to subscribe for Shares and of the exercise of such rights, as required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("HK Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required

to be kept under section 352 of the SFO, or as otherwise required to be notified to the Company and the HK Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") on the HK Stock Exchange, were as follows:

(A) Ordinary Shares

Name of Directors	Number of Shares (including Underlying Shares)				Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che-woo	25,919,571	8,317,120 ⁽¹⁾	298,553,900 ⁽²⁾	1,504,617,167 ⁽³⁾	1,837,407,758	62.14
Francis Lui Yiu Tung	10,038,035	—	—	1,504,617,167 ⁽³⁾	1,514,655,202	51.23
Paddy Tang Lui Wai Yu	24,727,605	—	—	1,504,617,167 ⁽³⁾	1,529,344,772	51.72
Alexander Lui Yiu Wah	16,481,428	—	4,005,183 ⁽⁴⁾	1,504,617,167 ⁽³⁾	1,525,103,778	51.58
Moses Cheng Mo Chi	720,000	—	—	—	720,000	0.02
Robin Chan Yau Hing ⁽⁵⁾	2,502,069	—	—	—	2,502,069	0.08
William Yip Shue Lam	732,726	—	—	—	732,726	0.02
Au Man Chu	727,568	—	—	—	727,568	0.02
Wong Kwai Lam	920,000	—	—	—	920,000	0.03

Unless otherwise stated, all personal interests stated above were held by the respective Directors in the capacity of beneficial owners.

Notes:

- (1) Dr. Lui Che-woo is deemed to be interested in 8,317,120 Shares through the interests of his spouse.
- (2) Such Shares are held by companies which are controlled by Dr. Lui Che-woo.
- (3) Such interests in the Shares are indirectly held by a company which is the trustee of a discretionary family trust established by Dr. Lui Che-woo as founder. Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah are deemed to be interested in those Shares by virtue of being the beneficiaries of the discretionary family trust.
- (4) Such Shares are held by a company controlled by Mr. Alexander Lui Yiu Wah.
- (5) Dr. Robin Chan Yau Hing (through a corporation beneficially owned and controlled by him) had subscribed for the guaranteed notes with principal sum of US\$200,000,000 carrying a coupon rate of 5.375% per annum for a maturity of 5 years issued by K. Wah International Financial Services Limited (a wholly-owned subsidiary of the Company) under the US\$1 billion Medium Term Note Programme. Such notes are guaranteed by the Company and are listed on the HK Stock Exchange.

(B) Underlying Shares — Share Options

Details are set out in the SHARE OPTION SCHEME section below.

share capital of every subsidiary, joint venture and associated company of the Company held through the Company under the provision of the SFO.

All the interests stated above represent long positions.

Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah, by virtue of their deemed interests in the Shares as described in Note (3) above and as Directors of the Company, are deemed to be interested in the issued

Save as disclosed above, as of 31 December 2016, none of the Directors had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its specified undertakings or its other associated corporations (within the meaning of Part XV of the SFO).

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 31 December 2016, the interests of every person (not being a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company and the HK Stock Exchange were as follows:

Name of Shareholders	Number of Ordinary Shares (Long Position)	Approximate % of Issued Share Capital
CWL Assets (PTC) Limited	1,504,617,167	50.89
HSBC International Trustee Limited	1,419,996,537 ⁽¹⁾	48.03
Super Focus Company Limited	1,015,205,420	34.34
Star II Limited	246,549,451	8.34
Favor Right Investments Limited	197,773,141	6.69
Premium Capital Profits Limited	172,195,281	5.82
Lui Che Woo Foundation Limited	170,578,281	5.77

Note:

- (1) HSBC International Trustee Limited is the trustee of a discretionary trust established by Dr. Lui Che-woo as the founder which was interested in 1,419,996,537 Shares. Following the allotment of new Shares for interim scrip dividend for the six months ended 30 June 2016 on 18 October 2016, the shareholding of HSBC International Trustee Limited was increased to 1,504,617,167 Shares. Such Shares are the aggregation of (i) 197,773,141 Shares held by Favor Right Investments Limited, (ii) 45,089,155 Shares held by Best Chance Investments Ltd., (iii) 1,015,205,420 Shares held by Super Focus Company Limited, (iv) 172,195,281 Shares held by Premium Capital Profits Limited, and (v) 74,354,170 Shares held by Mark Liaison Limited; all the aforesaid companies are wholly-owned by a company controlled by the trust.

There was duplication of interests of 1,504,617,167 Shares among Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, Mr. Alexander Lui Yiu Wah, HSBC International Trustee Limited and CWL Assets (PTC) Limited. Of these Shares, 1,015,205,420 Shares were interested by Super Focus Company Limited, 45,089,155 Shares were interested by Best Chance Investments Ltd., 197,773,141 Shares were interested by Favor Right Investments Limited, 172,195,281 Shares were interested between Premium Capital Profits Limited and Star II Limited and 74,354,170 Shares were interested between Mark Liaison Limited and Star II Limited.

Save as disclosed above, as of 31 December 2016 the Company had not been notified by any persons who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The share option scheme of the Company ("Share Option Scheme") adopted by the Shareholders of the Company at its annual general meeting held on 20 June 2011 is summarized below:

(1) Purposes

- (i) to attract and retain the best quality personnel for the development of the Company's businesses;
- (ii) to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and
- (iii) to promote the long term financial success of the Company by aligning the interests of option holders to Shareholders.

(2) Participants

- (i) any selected employees of the Company or any affiliate and any senior executive or directors (including independent non-executive directors) of the Company or any affiliate; or
- (ii) any consultants, agents, representatives or advisers of the Company or any affiliate; or
- (iii) any persons who provide goods or services to the Company or any affiliate; or
- (iv) any customers or contractors of the Company or any affiliate; or
- (v) any business allies or joint venture partners of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

“Affiliate” means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

(3) Total number of Shares available for issue

Mandate Limit — Subject to the paragraph below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue as of 20 June 2011, being 255,195,221 Shares.

Overriding Limit — The Company may by ordinary resolutions of the Shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to the Shareholders before such approval is sought. The overriding limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the Shares in issue from time to time.

As of the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 58,392,000 Shares, which represented approximately 1.97% of the issued share capital of the Company on that date.

(4) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the Shares in issue. However, subject to separate approval by the Shareholders in general meeting with the relevant participant and his close associates (as defined in the Listing Rules) abstaining from voting and provided that the Company shall issue a circular to Shareholders before such approval is sought, the Company may grant a participant options which would exceed the aforesaid limit.

Report of the Directors

(5) Option period

The period during which an option may be exercised as determined by the Board in its absolute discretion at the time of grant, save that such period must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which an option must be held before it is vested

The minimum period, if any, for which an option must be held before it is vested shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the option

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of offer (or such longer period as the Board may specify in writing).

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of grant of the relevant option but shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the HK Stock Exchange's daily quotation sheet on the date of grant;
- (ii) the average closing price of the Shares as stated in the HK Stock Exchange's daily quotation sheet for the five (5) business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(9) Effects of re-organisation of capital structure

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of a capitalization of profits or reserves (other than pursuant to a scrip dividend scheme), rights issue, consolidation or subdivision of shares or reduction of capital, such corresponding alterations (if any) shall be made to: (a) the number and/or nominal amount of Shares subject to the option so far as unexercised; (b) the subscription price; and/or (c) the maximum number of Shares subject to the Share Option Scheme, as the auditors shall certify in writing to the Board to be in their opinion fair and reasonable (except in the case of a capitalization issue where no such certification shall be required), provided that: (i) any such alterations shall be made on the basis that the aggregate subscription price payable by an option holder on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) it was before such event; (ii) no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iii) no such alterations shall be made the effect of which would be to increase the proportion of the issued share capital of the Company for which any option holder is entitled to subscribe pursuant to the options held by him.

(10) The remaining life of the Share Option Scheme

The life span of the Share Option Scheme is 10 years commencing from 20 June 2011 and will expire on 19 June 2021.

Particulars of the movement of the options held by each of the Directors, and the employees of the Company and its affiliates and other qualifying grantees in aggregate under the Share Option Scheme during the year ended 31 December 2016, were as follows:

Holders	Date of grant	Number of options				Held at 31 December 2016	Exercise price per Share (HK\$)	Exercise period
		Held at 1 January 2016	Granted during the period ^(a)	Exercised during the period	Lapsed during the period			
Lui Che-woo	27 Nov 2007	1,055,000	—	—	—	1,055,000	4.636	27 Nov 2008–26 Nov 2017
	17 Jan 2012	2,358,000	—	—	—	2,358,000	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	2,630,000	—	—	—	2,630,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	2,700,000	—	—	—	2,700,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	2,800,000	—	—	2,800,000	2.796	21 Jan 2017–20 Jan 2022
Francis Lui Yiu Tung	17 Jan 2012	1,400,000	—	—	—	1,400,000	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	1,500,000	—	—	—	1,500,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	1,300,000	—	—	—	1,300,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	1,300,000	—	—	1,300,000	2.796	21 Jan 2017–20 Jan 2022
Paddy Tang Lui Wai Yu	27 Nov 2007	940,000	—	—	—	940,000	4.636	27 Nov 2008–26 Nov 2017
	24 Jan 2008	500,000	—	—	—	500,000	3.882	27 Nov 2008–26 Nov 2017
	17 Jan 2012	2,358,000	—	—	—	2,358,000	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	2,630,000	—	—	—	2,630,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	2,700,000	—	—	—	2,700,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	2,800,000	—	—	2,800,000	2.796	21 Jan 2017–20 Jan 2022
Alexander Lui Yiu Wah	27 Nov 2007	990,000	—	—	—	990,000	4.636	27 Nov 2008–26 Nov 2017
	24 Jan 2008	800,000	—	—	—	800,000	3.882	27 Nov 2008–26 Nov 2017
	17 Jan 2012	2,358,000	—	—	—	2,358,000	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	2,630,000	—	—	—	2,630,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	2,700,000	—	—	—	2,700,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	2,800,000	—	—	2,800,000	2.796	21 Jan 2017–20 Jan 2022
Moses Cheng Mo Chi	17 Jan 2012	200,000	—	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	200,000	—	—	—	200,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	160,000	—	—	—	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	160,000	—	—	160,000	2.796	21 Jan 2017–20 Jan 2022
Robin Chan Yau Hing	30 Sep 2014	160,000	—	—	—	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	160,000	—	—	160,000	2.796	21 Jan 2017–20 Jan 2022
William Yip Shue Lam	30 Sep 2014	160,000	—	—	—	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	160,000	—	—	160,000	2.796	21 Jan 2017–20 Jan 2022
Au Man Chu	17 Jan 2012	200,000	—	200,000 ^(b)	—	—	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	200,000	—	—	—	200,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	160,000	—	—	—	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	160,000	—	—	160,000	2.796	21 Jan 2017–20 Jan 2022
Wong Kwai Lam	17 Jan 2012	200,000	—	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	200,000	—	—	—	200,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	160,000	—	—	—	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	160,000	—	—	160,000	2.796	21 Jan 2017–20 Jan 2022
Employees and others (in aggregate)	27 Nov 2007	2,174,000	—	—	—	2,174,000	4.636	27 Nov 2008–26 Nov 2017
	24 Jan 2008	55,000	—	—	—	55,000	3.882	27 Nov 2008–26 Nov 2017
	17 Jan 2012	160,000	—	100,000 ^(c)	—	60,000	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	4,558,000	—	—	300,000	4,258,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	5,780,000	—	—	750,000	5,030,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	—	6,478,000	—	894,000	5,584,000	2.796	21 Jan 2017–20 Jan 2022

Notes:

- The closing price of the Shares immediately before the date on which the options were granted during the year was HK\$2.700 per share.
- The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$3.150 per share.
- The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$4.240 per share.

Report of the Directors

No option was cancelled during the year.

Except for the options granted on 24 January 2008 which vested on 27 November 2008, all other options granted are subject to a one-year vesting period.

Except for the Share Option Scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire Shares in or debentures of the Company or any other body corporate.

CONNECTED TRANSACTION

On 15 January 2016, 江門市嘉豐房地產開發有限公司 (an indirect wholly-owned subsidiary of the Company) as the vendor entered into four sale and purchase agreements with Dr. Lui Che-woo as the purchaser, being the Chairman and Managing Director of the Company and also a substantial shareholder of the Company, in respect of the sales of four residential units in The Summit which is situate at Pengjiang District, Jiangman City, Guangdong Province, Mainland China at an aggregate consideration of RMB11,775,888 (equivalent to approximately HK\$13,883,000) ("Total Consideration") which had been completed as scheduled ("Sales").

As Dr. Lui Che-woo, the purchaser of the Sales, is the Chairman and Managing Director of the Company and also a substantial shareholder of the Company, he is a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the Sales constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. Since the highest applicable percentage ratio (other than the profit ratio) calculated with reference to Rule 14.07 of the Listing Rules for the Total Consideration of the Sales exceeded 0.1% but was less than 5%, the Sales were subject to announcement and reporting requirements but were exempt from circular and independent Shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

Details of the abovementioned connected transaction were included in the announcement of the Company dated 15 January 2016 and published on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the Company had the following continuing connected transactions, details of which are set out below:

1. The guarantee dated 5 March 1997 ("Guarantee") given by the Company in favour of the Government of the HKSAR in respect of Contract No.GE/96/10 for 17 years quarrying rights and rehabilitation of the quarry at Tai Sheung Tok Anderson Road, Kowloon to KWP Quarry Co. Limited ("KWP") (a subsidiary of Galaxy Entertainment Group Limited) was subsisting as at year-end. By virtue of the Second Supplementary Agreement, the Fourth Supplementary Agreement and the Fifth Supplementary Agreement dated 5 May 2009, 23 February 2016 and 30 August 2016 respectively, all made between the Government of the HKSAR and KWP, the Guarantee was automatically further extended until 28 July 2017. Details of this continuing connected transaction were already disclosed in the announcement of the Company dated 10 November 2006. The Company has also referred to the Guarantee in its annual reports since 1997. No annual cap was involved.
2. On 27 October 2014, the Company as lessee and Polymate Co., Ltd. ("Polymate") (a wholly-owned subsidiary of a substantial shareholder of the Company which in turn is the trustee of a discretionary family trust established by Dr. Lui Che-woo and of which members of Lui's family, including Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah, are the beneficiaries) as lessor had entered into of the master lease agreement ("Master Lease Agreement") in respect of the leasing and/or licensing of certain properties beneficially owned by the respective subsidiaries of Polymate for a term of 3-year period from 1 November 2014 to 31 October 2017 (both days inclusive) with the amount of annual rent payable by the

relevant subsidiaries of the Company to the respective subsidiaries of Polymate subject to the annual caps fixed (“Annual Caps”) for each corresponding financial year as disclosed in the announcement of the Company dated 27 October 2014 (“Announcement”). For the year ended 31 December 2016, the aggregate annual rent of HK\$15,850,000 was paid and payable by the relevant subsidiaries of the Company under the Master Lease Agreement, which is within the Annual Caps. Details of the continuing connected transactions have been disclosed in the Announcement.

The entering into of the Master Lease Agreement constituted as continuing connected transactions of the Company, with applicable percentage ratios more than 0.1% but less than 5%, was exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

The Board of Directors of the Company (including the independent non-executive Directors) had noted and approved the abovementioned continuing connected transactions. These continuing connected transactions have also been reviewed by the independent non-executive Directors of the Company who are not interested in any continuing connected transaction with the Company and they confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group and on normal commercial term; and in accordance with the relevant agreements governing the respective transactions, on terms that are fair and reasonable and in the interests of the Company and the Shareholders of the Company as a whole.

The Company’s independent auditor was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “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 its unqualified

letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above 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 HK Stock Exchange.

PRE-EMPTIVE RIGHTS

There are no shareholders pre-emptive rights as a matter of Bermuda law, either under statute or at common law.

DIRECTORS’ COMPETING BUSINESS

Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah (collectively, the “Relevant Directors”), as either directly or indirectly through a discretionary family trust and other privately-owned companies, are deemed to be interested in several independently managed companies, which are also engaging in property investment, trading, and development. The business of these companies (“Competing Business”) may compete, directly or indirectly, with the business of the Group. The Relevant Directors are also directors of certain holding companies of the Competing Business.

Notwithstanding the interests of the Relevant Directors in the Competing Business disclosed above, the Group is able to carry on its business independent of, and at arm’s length from, the Competing Business, given that the Company has a strong and independent Board with 5 out of 9 Directors being non-executive/independent non-executive Directors as at the date of this Report of the Directors. These non-executive/independent non-executive Directors are professionals (audit/accounting and legal) or prominent businessmen. The Company has established corporate governance procedures, which ensure investment opportunities and business performance are independently assessed and reviewed. The Relevant Directors are fully aware of their fiduciary duty to the Company, and will abstain from voting on any matter where there is, or there may be, a conflict of interest. The Directors therefore consider that the Group’s interests are adequately safeguarded.

Save as disclosed above, there is no other competing business interest between the Directors and his/her respective close associates and the Group.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the 2016 Financial Statements, is shown on pages 6 to 7 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016:

- (1) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and
- (2) the aggregate amount of purchases (not including the purchases of items which were of a capital nature) attributable to the Group's major suppliers of the Group's total of such purchases is as follow:

The largest supplier	15%
Five largest suppliers	47%

None of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers (suppliers of items which were not of a capital nature).

MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

AUDITOR

The 2016 Financial Statements have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the 2017 AGM.

On behalf of the Board

Lui Che-woo

Chairman and Managing Director

Hong Kong, 21 March 2017

Independent Auditor's Report



羅兵咸永道

To the Shareholders of K. Wah International Holdings Limited
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of K. Wah International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 130, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated profit and loss statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

A key audit matter identified in our audit is summarised as follows:

Key Audit Matter

Realisation of development properties held by the Group
Refer to notes 3.9 (Summary of significant accounting policies), 5(d) (Critical accounting estimates and judgments) and 24 (Notes to the consolidated financial statements)

Development properties is the key component of the net assets value attributable to the equity holders. The carrying value of development properties as at 31 December 2016 was HK\$23,677,327,000. The Group's development properties portfolio comprises completed properties and properties under development in Hong Kong and the Mainland China, which required management to apply significant judgment in their realisation assessment.

Management assessed the realisation of the Group's development properties based on the net realisable value of the underlying properties. Significant judgment is applied in the estimation of the net realisable value, which takes into account the estimated future sales price based on current market price of properties of comparable locations and conditions, less applicable variable selling expenses and anticipated costs to completion.

How our audit addressed the Key Audit Matter

We tested the key controls in relation to the development properties with particular focus on controls over cost budgeting and periodic review of the budgets.

We understood management's assessment of the net realisable value of the underlying properties and assessed the reasonableness of key estimates adopted by management. For the estimated future sales price, we checked, on a sample basis, contracted sales price of the underlying properties and recent market transaction prices of properties with comparable nature and locations, where appropriate. For anticipated costs to completion, we assessed the reasonableness of the latest budgets of total construction costs and tested, on a sample basis, the construction costs to construction contracts and other documentation.

Based on the audit procedures performed, we found that the estimates used in the calculation of the net realisable value were supportable in light of available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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.

OTHER INFORMATION (cont'd)

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

Independent Auditor's Report

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Ho Chi Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

Consolidated Profit and Loss Statement

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	7	9,619,956	4,720,487
Cost of sales		(5,096,500)	(1,679,851)
Gross profit		4,523,456	3,040,636
Other operating income		141,154	166,821
Other net gains		77,524	163,228
Fair value gain on transfer of development properties to investment properties	8	345,936	—
Change in fair value of investment properties		107,640	113,528
Other operating expenses		(567,094)	(352,361)
Administrative expenses		(427,632)	(446,029)
Finance costs	9	(22,308)	(61,930)
Share of profits of joint ventures		102,807	76,286
Share of profits of associated companies		790,363	115,166
Profit before taxation	10	5,071,846	2,815,345
Taxation charge	14	(1,845,715)	(1,368,223)
Profit for the year		3,226,131	1,447,122
Attributable to:			
Equity holders of the Company		3,181,996	1,366,754
Non-controlling interests		44,135	80,368
		3,226,131	1,447,122
		HK cents	HK cents
Earnings per share	15		
Basic		107.62	48.13
Diluted		107.34	48.06

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Profit for the year	3,226,131	1,447,122
Other comprehensive income/(loss):		
<i>Items that may be reclassified to profit and loss:</i>		
Change in fair value of non-current investment	1,519,226	(3,127,818)
Exchange differences arising from translation	(1,097,873)	(1,212,769)
Release of exchange reserve upon reduction of interest in subsidiaries	(61,541)	(198,606)
Other comprehensive income/(loss) for the year	359,812	(4,539,193)
Total comprehensive income/(loss) for the year	3,585,943	(3,092,071)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	3,616,649	(3,090,610)
Non-controlling interests	(30,706)	(1,461)
	3,585,943	(3,092,071)

Consolidated Balance Sheet

As at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	446,360	500,680
Investment properties	18	8,291,075	7,829,881
Leasehold land and land use rights	19	14,309	15,904
Joint ventures	20	976,552	837,530
Associated companies	21	1,278,491	510,218
Non-current investment	22	5,491,961	3,972,735
Deferred taxation assets	35	79,431	100,048
Derivative financial instruments	34	—	846
Other non-current assets	23	176,519	85,613
		16,754,698	13,853,455
Current assets			
Development properties	24	23,677,327	26,395,780
Inventories		2,055	2,680
Amounts due from associated companies	21	21,699	165,150
Debtors and prepayments	25	1,189,389	1,586,519
Land and tender deposits	26	1,185,500	25,000
Derivative financial instruments	34	938	—
Financial assets at fair value through profit or loss	27	142,567	—
Taxes recoverable		250,252	198,018
Cash and bank deposits	28	7,248,193	4,337,042
		33,717,920	32,710,189
Total assets		50,472,618	46,563,644
EQUITY			
Share capital	29	295,674	283,959
Reserves	31	25,064,023	21,541,214
Shareholders' funds		25,359,697	21,825,173
Non-controlling interests		1,766,770	1,511,587
Total equity		27,126,467	23,336,760

Consolidated Balance Sheet

As at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	32	6,934,991	9,418,226
Guaranteed notes	33	997,843	2,706,597
Derivative financial instruments	34	986	17,302
Deferred taxation liabilities	35	1,574,946	1,645,558
		9,508,766	13,787,683
Current liabilities			
Amounts due to joint ventures	20	559,343	238,970
Amounts due to associated companies	21	218,034	31,768
Creditors and accruals	36	1,698,815	1,432,662
Pre-sales deposits		5,798,541	5,404,066
Current portion of borrowings	32	1,366,069	459,791
Current portion of guaranteed notes	33	1,713,719	—
Derivative financial instruments	34	5,004	—
Taxes payable		2,477,860	1,871,944
		13,837,385	9,439,201
Total liabilities		23,346,151	23,226,884
Total equity and liabilities		50,472,618	46,563,644
Net current assets		19,880,535	23,270,988
Total assets less current liabilities		36,635,233	37,124,443

Lui Che-woo
Chairman and Managing Director

Paddy Tang Lui Wai Yu
Executive Director

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash flows from operating activities			
Cash generated from operations	37	5,461,223	3,287,601
Tax paid		(1,083,229)	(437,898)
Interest paid		(394,890)	(520,179)
Net cash generated from operating activities		3,983,104	2,329,524
Cash flows from investing activities			
Purchases of property, plant and equipment		(9,531)	(16,447)
Net changes in balances with joint ventures		284,299	(1,327,769)
Net changes in balances with associated companies		321,507	1,207,638
Purchase of investment in financial asset at fair value through profit or loss		(139,619)	—
Net settlement gain on derivative financial instruments		12,403	—
(Increase)/decrease in bank deposits		(620,357)	706,444
Proceeds from disposal of property, plant and equipment		206	16
Interest received		62,699	86,810
Dividend received from an associated company		30,300	300
Dividend received from a joint venture		80	1,722,525
Dividend income from non-current investment		53,620	68,243
Net cash (used in)/generated from investing activities		(4,393)	2,447,760
Cash flows from financing activities			
Issue of new shares		636	—
New long-term bank loans		5,415,670	4,461,962
Repayment of long-term bank loans		(7,320,682)	(9,509,364)
New short-term bank loans repayable after three months from date of advance		785,000	390,000
Repayment of short-term bank loans repayable after three months from date of advance		(485,000)	(560,000)
Acquisition of additional interests in a subsidiary from non-controlling interests		—	(9,110)
Capital contribution from non-controlling interests		319,956	100,967
Reduction of capital to non-controlling interests		—	(38,303)
Dividends paid to non-controlling interests		(34,067)	(86,287)
Dividends paid to shareholders		(90,482)	(242,942)
Net cash used in financing activities		(1,408,969)	(5,493,077)
Net increase/(decrease) in cash and cash equivalents		2,569,742	(715,793)
Cash and cash equivalents at beginning of year		4,301,234	5,252,856
Changes in exchange rates		(254,421)	(235,829)
Cash and cash equivalents at end of year		6,616,555	4,301,234

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital	Other reserves	Retained earnings	Shareholders' funds	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	283,959	5,804,068	15,737,146	21,825,173	1,511,587	23,336,760
Comprehensive income						
Profit for the year	—	—	3,181,996	3,181,996	44,135	3,226,131
Other comprehensive income/(loss)						
Other comprehensive income/(loss) for the year	—	434,653	—	434,653	(74,841)	359,812
Transactions with equity holders						
Fair value of share options	—	7,721	—	7,721	—	7,721
Issue of shares upon exercise of share options	30	606	—	636	—	636
Lapse of share options	—	(1,255)	1,255	—	—	—
Shares issued as scrip dividends	11,685	(11,685)	—	—	—	—
Reserve arising on scrip dividends	—	—	396,670	396,670	—	396,670
Capital contribution from non-controlling interests	—	—	—	—	319,956	319,956
Dividends	—	—	(487,152)	(487,152)	(34,067)	(521,219)
At 31 December 2016	295,674	6,234,108	18,829,915	25,359,697	1,766,770	27,126,467
At 1 January 2015	278,715	10,254,403	14,612,064	25,145,182	1,545,781	26,690,963
Comprehensive income						
Profit for the year	—	—	1,366,754	1,366,754	80,368	1,447,122
Other comprehensive loss						
Other comprehensive loss for the year	—	(4,457,364)	—	(4,457,364)	(81,829)	(4,539,193)
Transactions with equity holders						
Fair value of share options	—	13,543	—	13,543	—	13,543
Lapse of share options	—	(1,270)	1,270	—	—	—
Shares issued as scrip dividends	5,244	(5,244)	—	—	—	—
Reserve arising on scrip dividends	—	—	175,954	175,954	—	175,954
Acquisition of additional interest in a subsidiary from non-controlling interests	—	—	—	—	(9,110)	(9,110)
Capital contribution from non-controlling interests	—	—	—	—	100,967	100,967
Reduction of capital to non-controlling interests	—	—	—	—	(38,303)	(38,303)
Dividends	—	—	(418,896)	(418,896)	(86,287)	(505,183)
At 31 December 2015	283,959	5,804,068	15,737,146	21,825,173	1,511,587	23,336,760

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

K. Wah International Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

The principal activities of the Company and its subsidiaries (together the “Group”) are property development and investment in Hong Kong, Mainland China and Singapore.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated and have been approved for issue by the Board of Directors on 21 March 2017.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention as modified by the revaluation of investment properties, non-current investment, derivative financial instruments and financial assets at fair value through profit or loss, which are carried at fair values.

The preparation of consolidated financial statements in conformity with all applicable HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in the financial statements for the year ended 31 December 2015, except as stated below.

The adoption of revised HKFRSs

In 2016, the Group adopted the following new standard and amendments to standards, which are relevant to its operations.

HKAS 1 (Amendments)	Presentation of Financial Statements — Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Property, Plant and Equipment and Intangible Assets — Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities — Applying the consolidation exception
HKFRS 11 (Amendments)	Joint Arrangement — Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual Improvements to HKFRSs 2012–2014 Cycle	

The Group has assessed the impact of the adoption of these new standard and amendments to standards and considered that there was no significant impact on the Group’s results and financial position or any substantial changes in the Group’s accounting policies and presentation of the consolidated financial statements.

Notes to the Consolidated Financial Statements

2 BASIS OF PREPARATION (cont'd)

New standards and amendments to standards that are not yet effective

		Effective for accounting periods beginning on or after
HKAS 7 (Amendments)	Statement of Cash Flows — Disclosure Initiative	1 January 2017
HKAS 12 (Amendments)	Income Taxes — Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (Amendments)	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019

The Group will adopt the above new standards and amendments to standards as and when they become effective. The Group is currently assessing the potential impact of these new standards and amendments to standards but expects their adoption will not have a significant effect on the Group's consolidated financial statements except as set out below.

HKFRS 15 "Revenue from contracts with customers" (effective for accounting periods beginning on or after 1 January 2018), establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. HKFRS 15 replaces HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and related interpretations. The core principle in that framework is that revenue is recognised when control of a good or service transfers to a customer. The new standard may change the timing of revenue recognition on certain property sales. As at the reporting date, the Group is not yet in a position to estimate the impact of HKFRS 15 on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Consolidation

(a) *Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls entities when the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-group transactions, balances, unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Consolidation (cont'd)

(a) *Subsidiaries (cont'd)*

(i) *Business combinations*

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs. Acquisition related costs are expensed as incurred. If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(ii) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Consolidation (cont'd)

(a) *Subsidiaries (cont'd)*

(iii) *Disposal of subsidiaries*

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

(iv) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets including goodwill.

(b) *Associated companies*

Associated companies are entities over which the Group has significant influence but not control. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's investment in associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associated company, any difference between the cost of the associated company and the Group's share of the net fair value of the associated company's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of its associated companies post-acquisition profits or losses is recognised in the consolidated profit and loss statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Consolidation (cont'd)

(b) *Associated companies (cont'd)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated company and its carrying value and recognises the amount in the consolidated profit and loss statement.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associated companies are recognised in the consolidated profit and loss statement.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit and loss where appropriate.

(c) *Joint arrangements*

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the interest in the joint ventures held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

3.3 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3.4 Property, plant and equipment

Land and buildings comprise mainly offices and hotel building. Leasehold land classified as finance leases and all other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

The carrying amount of the replaced asset is derecognised. All other repairs and maintenance costs are charged to the profit and loss statement during the financial period in which they are incurred.

All direct and indirect costs relating to the construction of property, plant and equipment, including borrowing costs during the construction period are capitalised as the costs of the assets.

Leasehold land classified as finance lease commences depreciation from the time when the land interest becomes available for its intended use. Buildings (including hotel building) on leasehold land are depreciated over their shorter useful life or respective lease periods using the straight-line method. No depreciation is provided on assets under construction. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Hotel building	20 years
Land and buildings	Shorter of remaining lease term or useful life
Plant and machinery	10 years
Other assets	3 to 10 years

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Property, plant and equipment (cont'd)

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its recoverable amount. Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss statement.

3.5 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property principally comprises freehold land, land held under operating leases and buildings held under finance leases. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating leases concerned are accounted for as if it were finance leases.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value, representing open market value determined at each balance sheet date by external valuers. Fair value is based on valuations carried out by professional valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active continues to be measured at fair value. Where fair value of investment property under construction is not reliably determinable, such investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the carrying amount of the property only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Investment properties (cont'd)

Changes in fair values of investment property are recognised in the profit and loss statement. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

When an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to completed properties held for sale at its fair value at the date of change in use.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, except that the land portion is reclassified as leasehold land and land use rights if it is operating lease in nature, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in other comprehensive income as revaluation reserves of property, plant and equipment. However, if the fair value gives rise to a reversal of a previous impairment, this write-back is recognised in the profit and loss statement. This revaluation reserve shall remain and be transferred to retained earnings upon disposal of this property.

If a development property becomes an investment property when there is a change in use, any difference resulting between the fair value of the property at that date and its previous carrying amount is recognised in the profit or loss statement.

3.6 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation, but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Financial assets

The Group classifies its financial assets in the categories of financial assets at fair value through profit or loss, loans and receivable, and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be settled within twelve months of the balance sheet date.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

(b) *Loans and receivable*

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the balance sheet date and are classified as non-current assets.

(c) *Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in the balance sheet under non-current investments unless management intends to dispose of the investment within twelve months of the balance sheet date.

Regular way purchases and sales of financial assets are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss statement and subsequently carried at fair value. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are initially recognised at fair value plus transaction cost and subsequently carried at fair value. Loans and receivable are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Financial assets (cont'd)

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss statement in the financial period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary financial assets classified as available-for-sale are recognised in other comprehensive income. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss statement as gains or losses from the financial assets. Dividends on available-for-sale equity instruments are recognised in the profit and loss statement as part of other income when the Group's right to receive payments is established. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted investments), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the financial assets below its cost is also evidenced that the financial assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial assets previously recognised in the profit and loss statement is removed from equity and recognised in the profit and loss statement. Impairment losses recognised in the profit and loss statement on equity investments are not reversed through the profit and loss statement.

3.8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The derivative is classified as a non-current asset or liability when the remaining maturity is more than twelve months, and as a current asset or liability when the remaining maturity of the contract is less than twelve months. Changes in fair value of derivatives are recognised in the consolidated profit and loss statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Development properties

Development properties comprise leasehold land and land use rights, construction costs, an appropriate proportion of overhead expenditure and borrowing costs incurred during the construction period, less provisions for impairment. Development properties are carried at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated costs to completion.

Development properties are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

3.10 Inventories

Inventories comprise primarily operating supplies, food and beverages, engineering spare parts and guest supplies. Operating supplies, food and beverages are stated at the lower of cost and net realisable value. Engineering spare parts and guest supplies are stated at lower of cost and net realisable value and expensed when consumed. Costs are assigned to individual items on the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.11 Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of debtors. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or other financial reorganisation and default or delinquency in payments are considered indicators that the debtor is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of debtors is reduced through the use of an allowance account and the amount of the provision is recognised in the profit and loss statement within other operating expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited against other operating income in the profit and loss statement.

If the collection of debtors is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

3.12 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and company balance sheet, bank overdrafts are shown within borrowings in current liabilities.

3.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Borrowings and guaranteed notes

Borrowings and guaranteed notes are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability including fees and commissions to agents, advisers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Borrowings and guaranteed notes are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings and guaranteed notes are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

3.15 Trade creditors

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade creditors are classified as current liabilities if payment is due within one year or less (or in normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

3.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss statement on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the Group has substantially of all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the profit and loss statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

3.17 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Provisions (cont'd)

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.18 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries, joint ventures and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred taxation liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation liability are provided on taxable temporary differences arising from investments in subsidiaries, associated companies and joint arrangements, except for deferred taxation liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associated companies. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred taxation liability in relation to taxable temporary differences arising from the associated company's undistributed profits is not recognised.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Current and deferred taxation (cont'd)

Deferred taxation assets are recognised on deductible temporary differences arising from investments in subsidiaries, associated companies and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxation assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.19 Employee benefits

(a) *Employee entitlements, benefits and bonuses*

Contributions to publicly or privately administered defined contribution retirement or pension plans on a mandatory, contractual or voluntary basis are recognised as employee benefit expense in the financial period when they are due. The Group has no further payment obligations once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(b) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.19 Employee benefits (cont'd)

(b) *Share-based compensation (cont'd)*

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit and loss statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

3.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to complete and prepare for its intended use or sale are capitalised as part of the cost of that asset until such time as the assets are substantially ready for their intended use or sales. All other borrowing costs are charged to the profit and loss statement in the financial period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualified assets is deducted from the borrowing costs eligible for capitalisation.

3.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable and is shown, net of value-added tax, business tax, returns, rebates and discounts, allowances for credit and other revenue reducing factors. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities of the Group have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) *Sales of properties*

Sales of properties in the ordinary course of business are recognised when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to the buyers;

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 Revenue recognition (cont'd)

(a) *Sales of properties (cont'd)*

- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as pre-sales deposits of properties under current liabilities.

(b) *Rental income*

Rental income net of any incentives given to the lessees is recognised over the periods of the respective leases on a straight-line basis.

(c) *Hotel operation income*

Hotel operation income is recognised when the services are rendered.

(d) *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method, taking into account the outstanding principal amounts and the applicable interest rates.

(e) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

3.22 Foreign currencies

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional currency and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.22 Foreign currencies (cont'd)

(b) *Transactions and balances (cont'd)*

Foreign exchange gains and losses are presented in the profit and loss statement within 'Other net gains/losses'. Exchange differences arising from translation of inter-company loan balances between Group entities are recognised in other comprehensive income and accumulated under the heading of exchange reserve when such loans form part of the Group's net investment in a foreign entity.

Translation differences on non-monetary financial assets held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain or loss. Translation differences on non-monetary available-for-sale investments are included in the investment reserve in other comprehensive income.

(c) *Group companies*

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rates at the date of that balance sheet;
- (ii) income and expenses for each profit and loss statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates at the balance sheet date. Exchange differences arising are recognised in other comprehensive income.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associated companies or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.22 Foreign currencies (cont'd)

(d) *Disposal of foreign operation and partial disposal (cont'd)*

In the case of a partial disposal resulting in a reduction of the Group's absolute ownership interest in a foreign entity, such as repayment of loans that form part of the Group's net investment in the foreign entity or return of capital of the entity without any change in the Group's proportionate percentage shareholding in the foreign entity, the proportionate share of the accumulated exchange differences are transferred out of the exchange reserve and are recognised in the profit or loss.

3.23 Insurance contracts

The Group assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flows. If the carrying amount of the relevant insurance liabilities is less than the best estimate of the expenditure required to settle the relevant insurance liabilities at the balance sheet date, the Group recognised the entire difference in profit or loss. These estimates are recognised only when the outflow is probable and the estimates can be reliably measured.

The Group regards its financial guarantee contracts in respect of mortgage facilities provided to certain property purchasers, guarantees provided to its joint ventures and associates companies as insurance contracts.

3.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The property industry is sensitive to the economic environment in Hong Kong and Mainland China, which will affect the volumes and selling prices of property transactions. The Group mainly relies on sales of properties, renewal of bank borrowings and issuance of guaranteed notes to fund its operations.

Risk management is carried out by the management of the Group under the supervision of the Board of Directors. The management of the Group identifies, evaluates and manages significant financial risks in the individual operating units of the Group. The Board of Directors provides guidance for overall risk management.

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor

4.1.1. Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong, Mainland China and Singapore and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB").

Foreign exchange risk mainly arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the entities in the Group.

All the Group's borrowings are denominated in the functional currency of the entities to minimise the foreign currency risk.

The Group would also consider entering into forward foreign exchange contracts to reduce foreign exchange risk exposure where necessary. The Group does not hedge any net investments in foreign operations.

At 31 December 2016, if Hong Kong dollar had weakened or strengthened by 3% (2015: 3%) against RMB, with all other variables held constant, profit before taxation for the year would have been higher or lower by approximately HK\$3 million (2015: HK\$8 million) mainly as a result of foreign exchange gains/losses arising from cash at banks (2015: including borrowings).

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank loans.

The interest rate risk arises from borrowings. Borrowings with variable rates expose the Group to cash flow interest rate risk. Borrowings with fixed rates expose the Group to fair value interest rate risk.

With regard to cash flow interest rate risk of borrowings, when opportunities arise, the Group considers the use of interest rate swaps to fix the interest costs for long term. In case of funding requirement, other than bank borrowings, the Group may issue fixed-rate instruments, such as bonds, to avoid fluctuation of interest costs over the period of the instruments.

The Group has followed a policy of developing long-term banking facilities to match its long-term investments in Hong Kong and Mainland China. The policy also involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise. At 31 December 2016, if interest rates had been increased or decreased by 1% (2015: 1%) with all other variables held constant, the profit before taxation for the year (before capitalisation) would decrease or increase by approximately HK\$12 million (2015: HK\$57 million) mainly as a result of higher or lower interest expenses.

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor (cont'd)

4.1.1. Market risk (cont'd)

(iii) Price risk

The Group is exposed to equity securities price risk through investments held by the Group classified as available-for-sale investments which are publicly traded and financial assets at fair value through profit or loss.

At 31 December 2016, if the share price of the available-for-sale investments had been increased or decreased by 10% (2015: 10%) with all other variables held constant, the equity would increase or decrease by approximately HK\$549 million (2015: HK\$397 million).

At 31 December 2016, if the trade price of the financial assets at fair value through profit or loss had been increased or decreased by 10% with all other variables held constant, the profit before taxation for the year would increase or decrease by approximately HK\$14 million (2015: nil).

4.1.2. Credit risk

The Group's credit risk is primarily attributable to trade and other debtors, bank deposits, amounts due from joint ventures and associated companies.

The Group has policies in place to ensure that sales of properties, goods and services are made to customers with an appropriate credit history. The Group reviews the recoverable amount of the debtors and loan receivable on a regular basis and an allowance for doubtful debts is made where there is an identified loss.

In respect of credit exposures to customers for sales of properties, the Group normally receives deposits or progress payments from individual customers prior to the completion of sales transactions. With regard to credit exposure to customers for rental of properties, the Group also receives rental payments in advance with sufficient initial rental deposits to cover potential default in future rental payments. The Group monitors the credibility of joint ventures and associated companies continuously.

At each balance sheet date, the Group reviews the recoverable amount of each debtor to ensure that adequate provision is made for irrecoverable amounts.

The credit risk on liquid funds is limited because around 73% (2015: 69%) of the funds are placed in banks with high credit rankings, ranging from Aa to A, and the remaining 27% (2015: 31%) in local banks in different countries with close monitoring by the management and there is no concentration in any particular bank. Management does not expect any losses from non-performance of these banks.

4.1.3. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group. It prepares cash flow forecasts to assess funding needs on a regular basis and, if necessary, obtains financing to meet the funding requirement.

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor (cont'd)

4.1.3. Liquidity risk (cont'd)

The Group also maintains a conservative level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby credit facilities are obtained from banks to provide contingent liquidity support. As at 31 December 2016, the Group's total undrawn facilities amounted to HK\$11.8 billion (2015: HK\$13.7 billion).

The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include adjusting the construction progress of development properties, implementing cost control measures and accelerating sales with more flexible pricing. The Group will, base on its assessment of the relevant future costs and benefits, pursue such options as are appropriate.

The contractual maturity of the Group for its financial liabilities, drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay and include both interest and principal, is set out below.

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2016					
Borrowings	1,554,056	538,603	6,820,834	—	8,913,493
Guaranteed notes	1,642,396	44,713	1,112,562	—	2,799,671
Net settled derivative financial instruments	5,500	3,687	—	—	9,187
Gross settled derivative financial instruments					
— inflow	(1,550,408)	—	—	—	(1,550,408)
— outflow	1,555,700	—	—	—	1,555,700
Trade creditors	1,236,333	—	—	—	1,236,333
Other creditors and accruals	308,367	—	—	—	308,367
Amounts due to joint ventures	559,343	—	—	—	559,343
Amounts due to associated companies	218,034	—	—	—	218,034
Amounts due to non-controlling interests	5,157	—	—	—	5,157
Total	5,534,478	587,003	7,933,396	—	14,054,877
At 31 December 2015					
Borrowings	670,992	1,878,836	8,044,578	—	10,594,406
Guaranteed notes	133,376	1,639,868	134,190	1,074,718	2,982,152
Net settled derivative financial instruments	5,217	1,008	—	—	6,225
Gross settled derivative financial instruments					
— inflow	—	(1,547,388)	—	—	(1,547,388)
— outflow	—	1,555,700	—	—	1,555,700
Trade creditors	972,932	—	—	—	972,932
Other creditors and accruals	323,103	—	—	—	323,103
Amounts due to joint ventures	238,970	—	—	—	238,970
Amounts due to associated companies	31,768	—	—	—	31,768
Amounts due to non-controlling interests	5,506	—	—	—	5,506
Total	2,381,864	3,528,024	8,178,768	1,074,718	15,163,374

Note:

The table above excludes guarantees executed by the Group as management considers the likely crystallisation of the guarantees to be as minimal.

Interest on borrowings and guaranteed notes are calculated on balances held as at 31 December 2016 and 2015. Floating-rate interest is estimated using the current interest rate as at 31 December 2016 and 2015 respectively.

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.2 Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of borrowings and equity.

The Directors of the Company review the capital structure periodically. As a part of this review, the Directors of the Company assess the annual budget prepared by the finance department which reviews the planned construction projects proposed by project department and prepared the annual budget taking into account the provision of funding. Based on the proposed annual budget, the Directors of the Company consider the cost of capital and the risks associated with capital. The Directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, which is calculated as net borrowings to total equity. Net borrowings is calculated as total borrowings, including current, non-current borrowings and guaranteed notes, less cash and bank deposits.

The gearing ratio is calculated as follows:

	2016 HK\$'000	2015 HK\$'000
Total borrowings	11,012,622	12,584,614
Less: Cash and bank deposits	(7,248,193)	(4,337,042)
Net borrowings	3,764,429	8,247,572
Total equity	27,126,467	23,336,760
Gearing ratio	14%	35%

4.3 Fair value estimation

The disclosure of fair value measurements of financial instruments carried at fair value by level in the following fair value measurement hierarchy:

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

At 31 December 2016 and 31 December 2015, the Group had no Level 3 financial instruments, the only Level 1 financial instrument that are measured at fair value represents the non-current investment (note 22) and Level 2 financial instruments that are measured at fair value represents financial assets at fair value through profit or loss (note 27) and derivative financial instruments (note 34).

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.3 Fair value estimation (cont'd)

(a) *Financial instruments in Level 1*

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

(b) *Financial instruments in Level 2*

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all the resulting fair value estimates are included in Level 2.

There was no transfer of financial assets between Level 1 and Level 2 fair value hierarchy classifications.

The fair values of long-term borrowings are estimated using the expected future contractual payments discounted at current market interest rates.

The fair values of financial instruments that are not traded in an active market, which include unlisted pooled fund are determined with reference to quoted market price provided by the bank which may use established valuation techniques to ascertain the price.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, balances with joint ventures and associated companies, debtors, tender deposits, bank balances, creditors and current borrowings are assumed to approximate their fair values.

See note 18 for disclosures of the investment properties that are measured within level 3 of the fair value hierarchy.

Notes to the Consolidated Financial Statements

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the consolidated financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below:

(a) Current and deferred taxation and land appreciation tax

Significant judgment is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final taxation outcome of these matters is different from the amounts that were initially recorded, such difference will impact the provision for current and deferred taxation in the financial period in which such determination is made.

The Group is subject to land appreciation tax in Mainland China. However, the actual implementation of this tax is uncertain and varies amongst local tax authorities. Accordingly, significant judgment is required in determining the amount of the land appreciation tax and its related tax provision. The Group recognises land appreciation tax based on best estimates according to the understanding of the tax rules. The final taxation outcome could be different from the amounts that were initially recorded, and these differences will impact the provision for taxation in the financial period in which such determination is made.

Deferred taxation assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Fair values of investment properties

The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgment, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

(b) Fair values of investment properties (cont'd)

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using valuation techniques as disclosed in note 18. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market. The valuations are reviewed annually by external valuers.

(c) Share-based payments

The fair value of option granted is estimated by an independent professional valuer based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the options at the date of granting the options.

(d) Provision for development properties

The Group assesses the carrying amounts of properties under development and completed properties for sale according to their net realisable value based on the realisability of these properties, taking into account estimated costs to completion based on past experience and estimated net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgment and estimates.

(e) Impairment of non-financial assets

The Group tests at each balance sheet date whether assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

(f) Recoverability of other non-current assets and debtors

The Group assess whether there is objective evidence that other non-current assets and debtors are impaired. It recognises impairment based on estimates of the extent and timing of future cash flows using applicable discount rates. The final outcome of the recoverability and cash flows of these non-current assets and debtors will impact the amount of impairment required.

Notes to the Consolidated Financial Statements

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

(g) Revenue recognition

The Group has recognised revenue from the sale of properties as disclosed in note 7 according to the accounting policy as stated in note 3.21 to the consolidated financial statements. The assessment of when the Group has transferred the significant risks and rewards of ownership to buyers and whether it is probable that future economic benefit will flow to the Group requires the use of judgment. In making this judgment, the Group evaluates the circumstances of the transaction, the terms under the sales and purchase agreement and settlement status of consideration.

(h) Financial implication of regulation of idle land

Under the People's Republic of China ("PRC") laws and regulations, if a property developer fails to commence the development of land within the timeframe designated in the land grant contract, the PRC government may regard the land as idle land and issue a warning or impose a penalty on the developer or reclaim the land. Judgment is required in assessing whether these tracts of land will be subject to the penalty of idle land and thereby resulting in any financial impact to the Group. In making this judgment, the Group evaluates the extent of development of the whole tracts of land, status of negotiation with the government authorities as to the extension of time of commencement or revision of development plans.

6 SEGMENT INFORMATION

The Group is principally engaged in property development and investment in Hong Kong, Mainland China and Singapore. In accordance with the internal financial reporting of the Group provided to the chief operating decision-maker for the purposes of allocating resources, assessing performance of the operating segments and making strategic decisions, the reportable operating segments are property development and property investment. The Group regards the Board of Directors as the chief operating decision-maker.

The results of the operating segments represent the adjusted earnings before interest, tax, depreciation, amortisation and certain items (the "Adjusted EBITDA"). Certain items include other operating income/expenses, other net gains, fair value gain on transfer of development properties to investment properties and change in fair value of investment properties. Also the Adjusted EBITDA excludes the share of results of joint ventures and associated companies. There are no sales or trading transactions between the operating segments. Others represent corporate level activities including central treasury management, hotel operation and administrative function.

6 SEGMENT INFORMATION (cont'd)

Segment assets primarily consist of property, plant and equipment, leasehold land and land use rights, deferred taxation assets, other non-current assets, development and investment properties, debtors and prepayments, land and tender deposits, financial assets at fair value through profit or loss, taxes recoverable, cash and bank deposits and other assets mainly include non-current investment, derivative financial instruments, hotel building, inventories and other non-operating assets held by the corporate office. Segment liabilities comprise mainly creditors and accruals, pre-sales deposits, amounts due to joint ventures and associated companies, borrowings, guaranteed notes, derivative financial instruments, taxes payable and deferred taxation liabilities. Other liabilities include liabilities not arising from the operation of the operating segments.

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2016						
Revenue	3,266,978	5,857,652	—	392,697	102,629	9,619,956
Adjusted EBITDA	895,050	3,086,042	(3,199)	346,765	(192,286)	4,132,372
Other income and expenses/gains, net						(348,416)
Depreciation and amortisation						(36,548)
Fair value gain on transfer of development properties to investment properties				345,936		345,936
Change in fair value of investment properties				107,640		107,640
Finance costs						(22,308)
Share of profits/(losses) of joint ventures	102,854	(47)				102,807
Share of profits of associated companies	790,363					790,363
Profit before taxation						5,071,846
Taxation charge						(1,845,715)
Profit for the year						3,226,131
As at 31 December 2016						
Segment assets	12,904,634	20,293,040	304,798	8,510,669	—	42,013,141
Other assets	—	—	—	—	6,182,735	6,182,735
Joint ventures	976,116	436	—	—	—	976,552
Associated companies	1,300,190	—	—	—	—	1,300,190
Total assets	15,180,940	20,293,476	304,798	8,510,669	6,182,735	50,472,618
Total liabilities	7,997,144	13,441,353	657	1,860,021	46,976	23,346,151

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION (cont'd)

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2015						
Revenue	920	4,262,982	—	351,081	105,504	4,720,487
Adjusted EBITDA	17,543	2,519,652	(3,169)	324,875	(221,357)	2,637,544
Other income and expenses/gains, net						(22,312)
Depreciation and amortisation						(42,937)
Change in fair value of investment properties				113,528		113,528
Finance costs						(61,930)
Share of profits/(losses) of joint ventures	76,536	(250)				76,286
Share of profits of associated companies	115,166					115,166
Profit before taxation						2,815,345
Taxation charge						(1,368,223)
Profit for the year						1,447,122
As at 31 December 2015						
Segment assets	13,026,066	19,168,668	311,183	7,976,587	—	40,482,504
Other assets	—	—	—	—	4,568,242	4,568,242
Joint ventures	837,043	487	—	—	—	837,530
Associated companies	675,368	—	—	—	—	675,368
Total assets	14,538,477	19,169,155	311,183	7,976,587	4,568,242	46,563,644
Total liabilities	9,080,935	12,517,864	716	1,566,837	60,532	23,226,884
Year ended 31 December 2016						
Additions to non-current assets	—	6,082	—	—	3,449	9,531
Year ended 31 December 2015						
Additions to non-current assets	—	5,125	115	—	11,207	16,447

Geographical segment information

The Group operates in three (2015: three) main geographical areas, including Hong Kong, Mainland China and Singapore.

6 SEGMENT INFORMATION (cont'd)

Geographical segment information (cont'd)

The revenue for the years ended 31 December 2016 and 2015 and total non-current assets (other than joint ventures, associated companies, non-current investment, deferred taxation assets, derivative financial instruments and other non-current assets) as at 31 December 2016 and 2015 by geographical area are as follows:

Revenue	2016 HK\$'000	2015 HK\$'000
Hong Kong	3,311,283	42,875
Mainland China	6,308,673	4,677,612
Singapore	—	—
	9,619,956	4,720,487
Non-current assets	2016 HK\$'000	2015 HK\$'000
Hong Kong	2,005,077	1,236,953
Mainland China	6,746,487	7,109,120
Singapore	180	392
	8,751,744	8,346,465

7 REVENUE

	2016 HK\$'000	2015 HK\$'000
Sale of properties	9,124,630	4,263,902
Rental income	392,697	351,081
Hotel operations	102,629	105,504
	9,619,956	4,720,487

8 FAIR VALUE GAIN ON TRANSFER OF DEVELOPMENT PROPERTIES TO INVESTMENT PROPERTIES

The amount represented fair value gain on transfer of certain units of Chantilly and commercial portions of Twin Peaks from development properties to investment properties in pursuance of the Group's strategy to increase the recurring income.

Notes to the Consolidated Financial Statements

9 FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest expenses		
Bank loans, guaranteed notes, overdrafts and others	485,590	622,397
Capitalised as cost of properties under development	(463,282)	(560,467)
	22,308	61,930

The capitalisation rates applied to funds borrowed generally and used for the development of properties are from 1% to 5% per annum (2015: 1% to 6% per annum).

10 PROFIT BEFORE TAXATION

	2016 HK\$'000	2015 HK\$'000
Profit before taxation is stated after crediting:		
Interest income from banks	63,490	79,262
Interest income from mortgage loans and others	1,845	467
Dividend income from non-current investment	53,620	68,243
Release of exchange reserve upon reduction of interest in subsidiaries	61,541	198,606
Net gain on settlement of derivative financial instruments	12,403	—
Net fair value gains on derivative financial instruments	11,404	—
Net fair value gains on financial assets at fair value through profit or loss	2,948	—
and after charging:		
Cost of properties sold	5,018,334	1,612,973
Cost of inventories consumed/sold	20,874	22,359
Selling and marketing expenses	537,160	326,415
Depreciation (net of amount capitalised under properties under development of HK\$227,000 (2015: HK\$370,000))	36,427	42,808
Amortisation for leasehold land and land use rights	121	129
Auditors' remuneration to the auditor of the Company		
Audit services		
Provision for the year	4,353	4,165
Over-provision for prior years	—	(24)
Non-audit services	1,146	762
Loss on disposal of property, plant and equipment	42	491
Operating lease rental for land and buildings	9,233	8,607
Outgoings in respect of investment properties		
Direct operating expense of investment properties that generate rental income	13,947	8,884
Direct operating expense of investment properties that did not generate rental income	3,489	5,504
Net fair value losses on derivative financial instruments	—	16,189
Net exchange losses	10,730	18,698

11 EMPLOYEE BENEFIT EXPENSES

	2016 HK\$'000	2015 HK\$'000
Staff costs including directors' emoluments	341,699	340,459
Pension costs — defined contribution plans	22,254	22,777
Share options granted to directors and employees	7,721	13,543
	371,674	376,779
Less: Amount capitalised under properties under development	(72,099)	(76,221)
	299,575	300,558

The Group operates two defined contribution schemes in Hong Kong which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance ("ORSO") and Mandatory Provident Fund ("MPF") Schemes Ordinance. All the assets under the schemes are held separately from the Group under independently administered funds. Contributions to the MPF Scheme follow the MPF Schemes Ordinance while contributions to the ORSO Scheme are based on a percentage ranging from 5% to 10% (depending upon the length of employment) of the basic salary of the employee, minus the mandatory contributions to the MPF Scheme. The contributions to the ORSO Scheme may be reduced by contributions forfeited in respect of those employees who leave the scheme prior to the full vesting of the contributions of the Group on the employee.

Employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to those plans at rates ranging from 13% to 20% of the basic salaries of the employees, depending upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

During the year, contributions forfeited of HK\$1,129,000 (2015: HK\$606,000) were utilised, leaving HK\$13,000 (2015: HK\$193,000) available at the balance sheet date to reduce future contributions.

Notes to the Consolidated Financial Statements

12 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Name	(note i)		(note ii)				Total HK\$'000
	Directors' fee HK\$'000	Estimated money value of other benefits (note iii) HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Estimated money value of other benefits (note iii) HK\$'000	
2016							
Lui Che-woo	300	—	12,089	1,453	1,267	1,344	16,453
Francis Lui Yiu Tung	160	—	1,493	180	149	624	2,606
Paddy Tang Lui Wai Yu	160	—	6,599	793	660	1,344	9,556
Alexander Lui Yiu Wah	160	—	8,972	1,078	897	1,344	12,451
Robin Chan Yau Hing	160	77	—	—	—	—	237
William Yip Shue Lam	410	77	—	—	—	—	487
Moses Cheng Mo Chi	211	77	—	—	—	—	288
Au Man Chu	280	77	—	—	—	—	357
Wong Kwai Lam	260	77	—	—	—	—	337
Poon Chung Kwong ^(iv)	162	—	—	—	—	—	162
	2,263	385	29,153	3,504	2,973	4,656	42,934
2015							
Lui Che-woo	300	—	11,624	1,391	1,221	2,288	16,824
Francis Lui Yiu Tung	160	—	1,436	172	144	1,102	3,014
Paddy Tang Lui Wai Yu	160	—	6,345	759	635	2,288	10,187
Alexander Lui Yiu Wah	160	—	8,627	1,032	863	2,288	12,970
Robin Chan Yau Hing	160	136	—	—	—	—	296
William Yip Shue Lam	410	136	—	—	—	—	546
Moses Cheng Mo Chi	160	136	—	—	—	—	296
Au Man Chu	280	136	—	—	—	—	416
Wong Kwai Lam	260	136	—	—	—	—	396
Poon Chung Kwong ^(iv)	280	—	—	—	—	—	280
	2,330	680	28,032	3,354	2,863	7,966	45,225

- (i) The amounts represented emoluments paid or receivable in respect of a person's services as a director of the Company or its subsidiary undertakings.
- (ii) The amounts represented emoluments paid or receivable in respect of a person's other services in connection with the management of the affairs of the Company or its subsidiary undertakings. The discretionary bonuses paid in 2016 were in relation to performance and services for 2015.
- (iii) Other benefits represented share options granted to the Directors under the share option scheme of the Company. The value represented the fair value of these options charged to the profit and loss statement for the year in accordance with the accounting policies of the Group.
- (iv) Professor Poon Chung Kwong resigned as an independent non-executive Director and a member of the Audit Committee of the Company on 31 July 2015.

There was no arrangement under which a Director waived or agreed to waive any emoluments during the current and prior years.

12 BENEFITS AND INTERESTS OF DIRECTORS (cont'd)

(b) Directors' material interests in transactions, arrangements or contracts

Pursuant to a guarantee dated 5 March 1997, the Company had given corporate guarantee in favour of the Hong Kong Government in respect of the contract for quarrying rights and rehabilitation of the quarry at Tai Sheung Tok Anderson Road to KWP Quarry Co. Limited ("KWP"). KWP is a subsidiary of Galaxy Entertainment Group Limited, which the substantial shareholder is the trustee of a discretionary family trust ("Trust") established by Dr. Lui Che-woo and of which members of Lui's family, including Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah, are the beneficiaries. Pursuant to a master lease agreement dated 27 October 2014 made between the Company and Polymate Co., Ltd ("Polymate"), an aggregated annual rent of HK\$15,850,000 for the year ended 31 December 2016 (2015: HK\$14,988,000) was paid to Polymate, which is a wholly-owned subsidiary of a substantial shareholder of the Company which in turn is the trustee of the Trust.

On 15 January 2016, a subsidiary of the Company entered into four sales and purchase agreements with Dr. Lui Che-woo, being the Chairman and Managing Director of the Company and also a substantial shareholder of the Company, in respect of four residential units at a total consideration approximately HK\$13,883,000. The transactions were based on prevailing market prices and completed in January 2017.

Save for the aforementioned contract and arrangement, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: nil).

Notes to the Consolidated Financial Statements

13 FIVE HIGHEST PAY INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include three (2015: three) Directors. The emoluments of the five individuals are as follows:

	2016	2015
	HK\$'000	HK\$'000
Salaries and other emoluments	33,973	34,958
Pension cost — defined contribution plans	3,236	2,931
Discretionary bonuses	4,317	4,470
Share options granted	4,464	7,289
	45,990	49,648

The emoluments of the individuals fell within the following bands:

	Number of employees	
	2016	2015
HK\$3,000,001–HK\$3,500,000	1	—
HK\$4,000,001–HK\$4,500,000	1	—
HK\$4,500,001–HK\$5,000,000	—	1
HK\$5,000,001–HK\$5,500,000	—	1
HK\$9,500,001–HK\$10,000,000	1	—
HK\$10,000,001–HK\$10,500,000	—	1
HK\$12,000,001–HK\$12,500,000	1	—
HK\$12,500,001–HK\$13,000,000	—	1
HK\$16,000,001–HK\$16,500,000	1	—
HK\$16,500,001–HK\$17,000,000	—	1
	5	5

14 TAXATION CHARGE

	2016 HK\$'000	2015 HK\$'000
Current		
Hong Kong profits tax	75,288	3,659
Mainland China		
— Income tax	535,792	433,171
— Land appreciation tax	1,198,433	931,329
Overseas	53	126
Over-provision in previous years	(990)	(40,623)
Deferred (note 35)	37,139	40,561
	1,845,715	1,368,223

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year after setting off available tax losses brought forward. Taxation assessable on profits generated in Mainland China and overseas has been provided at the rates of taxation prevailing in the countries in which the Group operates. There is no income tax provided on other comprehensive income.

Land appreciation tax in Mainland China is normally provided at statutory progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the profit and loss statement as taxation charge.

The taxation charge on the profit before taxation differs from the theoretical amount that would arise using the applicable taxation rate being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

	2016 HK\$'000	2015 HK\$'000
Profit before taxation	5,071,846	2,815,345
Share of profits of joint ventures	(102,807)	(76,286)
Share of profits of associated companies	(790,363)	(115,166)
	4,178,676	2,623,893
Tax calculated at applicable tax rates	933,698	668,547
Income not subject to taxation	(57,343)	(62,928)
Expenses not deductible for taxation purposes	35,449	38,268
Recognition and utilisation of previously unrecognised tax losses	(42,736)	(31,130)
Tax loss not recognised	18,974	50,194
Land appreciation tax deductible for calculation of income tax	(287,108)	(232,832)
Over-provision in previous years	(990)	(40,623)
	599,944	389,496
Withholding tax	47,338	47,398
Land appreciation tax	1,198,433	931,329
Taxation charge	1,845,715	1,368,223

Notes to the Consolidated Financial Statements

15 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year is based on the following:

	2016 HK\$'000	2015 HK\$'000
Profit attributable to equity holders of the Company	3,181,996	1,366,754
	Number of shares	
	2016	2015
Weighted average number of shares for calculating basic earnings per share	2,956,615,000	2,839,597,000
Effect of dilutive potential ordinary shares — Share options	7,698,000	4,223,000
Weighted average number of shares for calculating diluted earnings per share	2,964,313,000	2,843,820,000

16 DIVIDENDS

	2016 HK\$'000	2015 HK\$'000
Interim scrip dividend (with a cash option) of 5 HK cents (2015: Interim scrip dividend (with a cash option) of 5 HK cents) per share	146,376	140,181
Proposed final scrip dividend (with a cash option) of 13 HK cents (2015: final scrip dividend (with a cash option) of 12 HK cent) per share	384,689	340,776
	531,065	480,957
The dividends have been settled by cash as follows:		
Interim	27,900	31,914
Final	—	62,582
	27,900	94,496

The Board of Directors recommended the payment of final scrip dividend (with a cash option) in respect of 2016 of 13 HK cents (2015: final scrip dividend (with a cash option) of 12 HK cents) per share. This dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2017.

17 PROPERTY, PLANT AND EQUIPMENT

	Hotel building HK\$'000	Land and buildings HK\$'000	Plant and machinery HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost					
At 1 January 2015	443,671	180,419	32,103	116,773	772,966
Exchange differences	(25,900)	(3,892)	(1,874)	(3,827)	(35,493)
Additions	126	—	6	16,315	16,447
Disposals	—	—	—	(6,912)	(6,912)
At 31 December 2015	417,897	176,527	30,235	122,349	747,008
Exchange differences	(28,401)	(3,980)	(1,917)	(4,379)	(38,677)
Additions	—	—	12	9,519	9,531
Disposals	—	—	—	(2,502)	(2,502)
At 31 December 2016	389,496	172,547	28,330	124,987	715,360
Accumulated depreciation					
At 1 January 2015	72,118	38,396	18,684	89,902	219,100
Exchange differences	(5,062)	(567)	(1,295)	(2,621)	(9,545)
Charge for the year	21,770	3,199	5,220	12,989	43,178
Disposals	—	—	—	(6,405)	(6,405)
At 31 December 2015	88,826	41,028	22,609	93,865	246,328
Exchange differences	(6,427)	(687)	(1,558)	(3,056)	(11,728)
Charge for the year	18,943	3,092	2,988	11,631	36,654
Disposals	—	—	—	(2,254)	(2,254)
At 31 December 2016	101,342	43,433	24,039	100,186	269,000
Net book value					
At 31 December 2016	288,154	129,114	4,291	24,801	446,360
At 31 December 2015	329,071	135,499	7,626	28,484	500,680

Hotel building and land and buildings with carrying values of HK\$417,268,000 (2015: HK\$464,570,000) were pledged to secure the banking facilities of the Group. Other assets comprise cruiser, furniture and equipment, leasehold improvements and motor vehicles.

Notes to the Consolidated Financial Statements

18 INVESTMENT PROPERTIES

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
At 1 January 2015	1,166,000	6,961,845	8,127,845
Exchange differences	—	(411,492)	(411,492)
Change in fair value	(18,000)	131,528	113,528
At 31 December 2015	1,148,000	6,681,881	7,829,881
Transfer from development properties	436,164	—	436,164
Fair value gain on transfer of development properties to investment properties	345,936	—	345,936
Exchange differences	—	(428,546)	(428,546)
Change in fair value	(11,300)	118,940	107,640
At 31 December 2016	1,918,800	6,372,275	8,291,075

(a) Investment properties were valued at 31 December 2016 on an open market value basis by DTZ Cushman & Wakefield Limited, Savills Valuation and Professional Services Limited, CBRE Limited and Knight Frank Petty Limited, independent professional valuers.

(b) Investment properties with carrying values of HK\$4,148,686,000 (2015: HK\$4,387,778,000) were pledged to secure the banking facilities of the Group.

(c) **Valuation processes of the Group**

The Group's investment properties were valued at 31 December 2016 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

The Group's finance department reviews the valuations performed by the independent valuers and reports directly to senior management of the Group. Discussions of valuation processes and results are held between the management and valuers at least once every six months, in line with the Group's interim and annual reporting dates. At each financial year end the finance department:

- Verifies major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

18 INVESTMENT PROPERTIES (cont'd)

(d) Valuation technique

Fair value measurements using significant unobservable inputs

Fair values of completed residential properties in Hong Kong are derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square feet.

Fair values of completed residential and commercial properties are generally derived using the income capitalisation method. This valuation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

There were no changes to the valuation techniques during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Information about the significant unobservable inputs used for the fair value measurements of completed residential and commercial properties valued under the income capitalisation method is as follows:

	Residential Properties Mainland China	Commercial Properties Hong Kong Mainland China	
2016			
Rental value (HK\$/sm/month)	310 to 343	264 to 1,615	61 to 671
Capitalisation rate (%)	3.50	3.25 to 6.00	5.65 to 9.00
2015			
Rental value (HK\$/sm/month)	327 to 360	614 to 1,830	61 to 716
Capitalisation rate (%)	3.50	3.25 to 4.00	5.65 to 9.00

Prevailing market rents are estimated based on valuers' view of recent lettings, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

Capitalisation and discount rates are estimated by valuers based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.

Notes to the Consolidated Financial Statements

19 LEASEHOLD LAND AND LAND USE RIGHTS

	2016 HK\$'000	2015 HK\$'000
At beginning of year	15,904	17,555
Exchange differences	(1,474)	(1,522)
Amortisation for the year	(121)	(129)
At end of year	14,309	15,904

Leasehold land and land use rights with carrying values of HK\$14,309,000 (2015: HK\$15,904,000) were pledged to secure the banking facilities of the Group.

20 JOINT VENTURES

	2016 HK\$'000	2015 HK\$'000
Share of net assets	848,903	746,126
Amounts due from joint ventures	127,649	91,404
	976,552	837,530

The share of the aggregate amounts of the assets, liabilities and results of the joint ventures, all of which are unlisted, attributable to the Group is as follows:

	2016 HK\$'000	2015 HK\$'000
Assets	1,151,565	1,020,306
Liabilities	(302,662)	(274,180)
Net assets	848,903	746,126
Revenue	371,462	309,321
Profit after taxation	102,807	76,286
Other comprehensive income	221	212
Total comprehensive income	103,028	76,498
Dividend received from a joint venture	80	1,722,525

20 JOINT VENTURES (cont'd)

Amounts due from joint ventures classified as non-current assets are unsecured, non-interest bearing and will not be repayable within next 12 months. Amounts due from/to joint ventures classified as current assets/liabilities are unsecured, non-interest bearing and repayable on demand. There is no single joint venture material to the Group.

Details of joint ventures of the Group are given in note 42(b). There are no contingent liabilities relating to the Group's interest in the joint ventures as at 31 December 2016 and 31 December 2015.

All the joint ventures are private companies and there are no quoted market price available for their shares.

21 ASSOCIATED COMPANIES

	2016 HK\$'000	2015 HK\$'000
Share of net assets	1,220,865	460,802
Amounts due from associated companies	57,626	49,416
	1,278,491	510,218

The share of the aggregate amounts of the assets, liabilities and results of the associated companies, all of which are unlisted, attributable to the Group is as follows:

	2016 HK\$'000	2015 HK\$'000
Assets	1,597,721	2,556,388
Liabilities	(376,856)	(2,095,586)
Net assets	1,220,865	460,802
Revenue	2,578,373	1,406,520
Profit after taxation and total comprehensive income	790,363	115,166
Dividend received from an associated company	30,300	300

Amounts due from associated companies classified as non-current assets are unsecured, non-interest bearing and will not be repayable within next 12 months. Amounts due from/to associated companies classified as current assets/liabilities are unsecured, non-interest bearing and repayable on demand. There is no single associated company material to the Group.

Details of associated companies of the Group are given in note 42(c). There are no contingent liabilities relating to the Group's interest in the associated companies as at 31 December 2016 and 31 December 2015.

All the associated companies are private companies and there are no quoted market price available for their shares.

Notes to the Consolidated Financial Statements

22 NON-CURRENT INVESTMENT

	2016 HK\$'000	2015 HK\$'000
Listed equity securities, at fair value	5,491,961	3,972,735

The listed securities represent the Group's 3.8% (2015: 3.8%) equity interest in Galaxy Entertainment Group Limited ("GEG"), which is incorporated and listed in Hong Kong. The principal activities of GEG are gaming, provision of hospitality, sale, manufacture and distribution of construction materials.

23 OTHER NON-CURRENT ASSETS

	2016 HK\$'000	2015 HK\$'000
Maintenance deposits	79,459	67,842
Mortgage loans, net of provision	51,412	1,096
Other receivables	45,648	16,675
	176,519	85,613

Mortgage loans are advances to purchasers of development properties of the Group and are secured by second mortgages on the related properties. The current portion of the loans amounting to HK\$2,940,000 (2015: HK\$90,000) is included under other debtors. The Group has not provided any impairment loss for its mortgage loans during the year (2015: nil).

24 DEVELOPMENT PROPERTIES

	Completed HK\$'000	Under development HK\$'000	2016 HK\$'000	Completed HK\$'000	Under development HK\$'000	2015 HK\$'000
Leasehold land and land use rights	1,990,249	12,332,696	14,322,945	1,982,849	14,638,487	16,621,336
Development costs	2,622,432	6,731,950	9,354,382	3,354,544	6,419,900	9,774,444
	4,612,681	19,064,646	23,677,327	5,337,393	21,058,387	26,395,780

Development properties with carrying values of HK\$7,703,287,000 (2015: HK\$7,209,780,000) were pledged to secure the banking facilities of the Group.

At the year end date, development properties under development amounting to HK\$11,341,101,000 (2015: HK\$16,847,823,000) were not scheduled for completion within 12 months.

25 DEBTORS AND PREPAYMENTS

	2016 HK\$'000	2015 HK\$'000
Trade debtors, net of provision	623,531	1,222,875
Other debtors, net of provision	186,942	196,413
Amounts due from non-controlling interests	—	8,833
Prepayments and other deposits	175,383	102,582
Prepaid sales taxes	203,533	55,816
	1,189,389	1,586,519

The debtors and prepayments are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
Hong Kong dollar	124,298	84,425
RMB	1,064,304	1,501,299
Singapore dollar	787	795
	1,189,389	1,586,519

Trade debtors mainly comprise proceeds receivables in respect of sales of properties and rental receivable. Proceeds receivables in respect of sales of properties are settled in accordance with the terms stipulated in the sales and purchase agreements. Rental from tenants is due and payable in advance.

The aging analysis of the trade debtors of the Group based on the date of invoices and net of provision for bad and doubtful debts is as follows:

	2016 HK\$'000	2015 HK\$'000
Within one month	487,811	897,921
Two to three months	84,045	259,417
Four to six months	39,980	63,496
Over six months	11,695	2,041
	623,531	1,222,875

Included in the trade debtors of the Group, carrying values of HK\$332,848,000 (2015: HK\$884,672,000) were not yet due and fully performing while the remaining amount of HK\$290,683,000 (2015: HK\$338,203,000) were past due but not impaired. These related to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade debtors is as follows:

	2016 HK\$'000	2015 HK\$'000
Within three months	239,008	272,666
Over three months	51,675	65,537
	290,683	338,203

Notes to the Consolidated Financial Statements

25 DEBTORS AND PREPAYMENTS (cont'd)

The Group has not made provision for impairment for its trade and other debtors during the year (2015: nil). As at 31 December 2016, no trade and other debtors was impaired (2015: nil).

As at 31 December 2016, other debtors included a loan receivable of HK\$98,804,000 (2015: HK\$105,491,000) which is unsecured, interest-free, denominated in RMB and matured within a year. The loan was fully performing. The Group does not hold any collateral as security.

The carrying amounts of the debtors and prepayments approximate to their fair value based on prevailing market interest rate. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of customers. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

26 LAND AND TENDER DEPOSITS

Balance comprises land deposits for property development of HK\$505,000,000 (2015: nil) and tender deposits of HK\$680,500,000 (2015: HK\$25,000,000).

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The amount represented unlisted pool funds in Mainland China denominated in RMB.

28 CASH AND BANK DEPOSITS

	2016 HK\$'000	2015 HK\$'000
Short-term bank deposits maturing after three months	72,666	35,808
Structured bank deposits	558,972	—
	631,638	35,808
Cash at bank and in hand	4,118,234	3,445,519
Short-term and other bank deposits	2,498,321	855,715
Cash and cash equivalents	6,616,555	4,301,234
Cash and bank deposits	7,248,193	4,337,042

The cash and bank deposit include HK\$1,548,655,000 (2015: HK\$994,744,000) which have been pledged or assigned for specific purposes under certain conditions.

The structured bank deposits were principal-protected deposits denominated in RMB with fixed maturity dates of not more than 3 months and their interest rates range from 3.1% to 3.2% per annum, with reference to certain interest rate and foreign currency exchange rates. The Group used the deposits primarily to enhance the interest yield.

28 CASH AND BANK DEPOSITS (cont'd)

The effective interest rate on short-term and other bank deposits is 1.43% (2015: 0.6%) per annum, these deposits have an average of 46 days (2015: 52 days).

The cash and bank deposits are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
Hong Kong dollar	2,105,196	1,166,441
RMB	4,838,460	2,855,104
Others	304,537	315,497
	7,248,193	4,337,042

The credit quality of cash and bank deposits by reference to Moody's credit ratings is as follows:

	2016 HK\$'000	2015 HK\$'000
Credit Rating:		
Aa	1,295,351	1,403,843
A	3,986,560	1,602,954
Baa	103,569	144,384
Others	1,862,713	1,185,861
	7,248,193	4,337,042

29 SHARE CAPITAL

	2016		2015	
	Shares of HK\$0.10 each		Shares of HK\$0.10 each	
	Number of	HK\$'000	Number of	HK\$'000
	Shares		Shares	
Authorised:				
At beginning and end of year	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid:				
At beginning of year	2,839,597,270	283,959	2,787,154,270	278,715
Share options exercised	300,000	30	—	—
Issued as scrip dividends	116,851,333	11,685	52,443,000	5,244
At end of year	2,956,748,603	295,674	2,839,597,270	283,959

During the year, share options to subscribe for 300,000 shares were exercised, of which HK\$30,000 and HK\$813,000 were credited to share capital and share premium respectively and HK\$207,000 was debited to share option reserve. No share options were exercised during 2015.

Notes to the Consolidated Financial Statements

30 SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for shares in the Company may be granted to Directors, senior executives or employees of the Company or its affiliates and other qualifying grantees. Options are exercisable at a price of the higher of the closing price of the shares on the date of grant or the average closing prices of the shares for the five business days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00. Except for the options granted on 24 January 2008, all other options granted are subject to a one year vesting period. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than ten years from the date of grant of the option.

Movements in the number of share options and their related weighted average exercise prices per share during the year are as follows:

	2016		2015	
	Average exercise price HK\$	Number of share options	Average exercise price HK\$	Number of share options
At beginning of year	4.0567	46,276,000	4.0707	47,650,000
Granted	2.7960	16,978,000	n/a	—
Exercised	2.1200	(300,000)	n/a	—
Lapsed	3.7333	(1,944,000)	4.5399	(1,374,000)
At end of year	3.7257	61,010,000	4.0567	46,276,000
Vested at end of year	4.0586	44,926,000	4.0567	46,276,000

The weighted average share price at the date of exercise for share options exercised during the year was HK\$3.513 per share.

The options outstanding at 31 December 2016 have exercise prices ranging from HK\$2.12 to HK\$4.636 (2015: HK\$2.12 to HK\$4.636) per share with weighted average remaining contractual life of 3 years (2015: 3.3 years).

30 SHARE OPTION SCHEME (cont'd)

Share options outstanding at the end of the year have the following exercise periods and exercise prices per share:

Exercise period	Exercise price HK\$	Number of share options	
		2016	2015
Directors			
27 November 2008 to 26 November 2017	4.636	2,985,000	2,985,000
27 November 2008 to 26 November 2017	3.882	1,300,000	1,300,000
17 January 2013 to 16 January 2018	2.120	8,874,000	9,074,000
21 January 2014 to 20 January 2019	4.610	9,990,000	9,990,000
30 September 2015 to 29 September 2020	4.500	10,200,000	10,200,000
21 January 2017 to 20 January 2022	2.796	10,500,000	—
Employees and others			
27 November 2008 to 26 November 2017	4.636	2,174,000	2,174,000
27 November 2008 to 26 November 2017	3.882	55,000	55,000
17 January 2013 to 16 January 2018	2.120	60,000	160,000
21 January 2014 to 20 January 2019	4.610	4,258,000	4,558,000
30 September 2015 to 29 September 2020	4.500	5,030,000	5,780,000
21 January 2017 to 20 January 2022	2.796	5,584,000	—
		61,010,000	46,276,000

The fair value of options granted during the year, as determined by using the Black-Scholes valuation model, was HK\$0.48 per option. The significant inputs into the model were share price of HK\$2.61 at the grant date, exercise price at the date of granting the options, expected volatility of 35%, expected life of options of 3.5 years, dividend yield of 3.3% and annual risk-free interest rate of 1.1%. The volatility measured based on the historical share price movement of the Company in the relevant period matching expected time to exercise before the option grant date.

Notes to the Consolidated Financial Statements

31 RESERVES

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Investment reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2016	1,730,929	53,704	99,089	13	859	702	3,800,502	118,270	15,737,146	21,541,214
Comprehensive income										
Profit for the year	—	—	—	—	—	—	—	—	3,181,996	3,181,996
Other comprehensive income										
Exchange differences arising from translation	—	—	—	—	—	(44)	—	(1,023,209)	—	(1,023,253)
Translation differences for joint ventures	—	—	—	—	—	—	—	221	—	221
Release of reserve upon reduction of interest in subsidiaries	—	—	—	—	—	—	—	(61,541)	—	(61,541)
Change in fair value of non-current investment	—	—	—	—	—	—	1,519,226	—	—	1,519,226
Transactions with equity holders										
Fair value of share options	—	7,721	—	—	—	—	—	—	—	7,721
Exercise of share options	813	(207)	—	—	—	—	—	—	—	606
Lapse of share options	—	(1,255)	—	—	—	—	—	—	1,255	—
Shares issued as scrip dividends	(11,685)	—	—	—	—	—	—	—	—	(11,685)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	396,670	396,670
2015 final dividend	—	—	—	—	—	—	—	—	(340,776)	(340,776)
2016 interim dividend	—	—	—	—	—	—	—	—	(146,376)	(146,376)
At 31 December 2016	1,720,057	59,963	99,089	13	859	658	5,319,728	(966,259)	18,829,915	25,064,023
Retained by:										
Company and subsidiaries	1,720,057	59,963	99,089	13	859	658	5,319,728	(967,475)	16,801,088	23,033,980
Joint ventures	—	—	—	—	—	—	—	1,216	807,964	809,180
Associated companies	—	—	—	—	—	—	—	—	1,220,863	1,220,863
	1,720,057	59,963	99,089	13	859	658	5,319,728	(966,259)	18,829,915	25,064,023
At 1 January 2015	1,736,173	41,431	99,089	13	859	745	6,928,320	1,447,773	14,612,064	24,866,467
Comprehensive income										
Profit for the year	—	—	—	—	—	—	—	—	1,366,754	1,366,754
Other comprehensive income										
Exchange differences arising from translation	—	—	—	—	—	(43)	—	(1,136,208)	—	(1,136,251)
Translation differences for joint ventures	—	—	—	—	—	—	—	212	—	212
Release of reserve upon reduction of interest in subsidiaries	—	—	—	—	—	—	—	(193,507)	—	(193,507)
Change in fair value of non-current investment	—	—	—	—	—	—	(3,127,818)	—	—	(3,127,818)
Transactions with equity holders										
Fair value of share options	—	13,543	—	—	—	—	—	—	—	13,543
Lapse of share options	—	(1,270)	—	—	—	—	—	—	1,270	—
Shares issued as scrip dividends	(5,244)	—	—	—	—	—	—	—	—	(5,244)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	175,954	175,954
2014 final dividend	—	—	—	—	—	—	—	—	(278,715)	(278,715)
2015 interim dividend	—	—	—	—	—	—	—	—	(140,181)	(140,181)
At 31 December 2015	1,730,929	53,704	99,089	13	859	702	3,800,502	118,270	15,737,146	21,541,214
Retained by:										
Company and subsidiaries	1,730,929	53,704	99,089	13	859	702	3,800,502	117,273	14,571,109	20,374,180
Joint ventures	—	—	—	—	—	—	—	997	705,237	706,234
Associated companies	—	—	—	—	—	—	—	—	460,800	460,800
	1,730,929	53,704	99,089	13	859	702	3,800,502	118,270	15,737,146	21,541,214

32 BORROWINGS

	2016 HK\$'000	2015 HK\$'000
Long-term bank loans		
Secured	2,217,148	3,809,008
Unsecured	5,783,912	6,069,009
	8,001,060	9,878,017
Short-term bank loans		
Secured	300,000	—
	8,301,060	9,878,017
Current portion included in current liabilities	(1,366,069)	(459,791)
	6,934,991	9,418,226

The long-term bank loans are repayable within the following periods:

	2016 HK\$'000	2015 HK\$'000
Within one year	1,366,069	459,791
Between one to two years	357,059	1,703,833
Between two to five years	6,577,932	7,714,393
	8,301,060	9,878,017

The carrying amounts of the long-term and short-term bank loans approximate to their fair value based on prevailing market interest rate. The effective interest rate is approximately 2.0% (2015: 2.3%). Borrowings are within Level 2 of the fair value hierarchy.

The borrowings are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
Hong Kong dollar	7,805,757	8,948,708
RMB	495,303	929,309
	8,301,060	9,878,017

Secured bank borrowings are pledged by hotel building and land and buildings, investment properties, leasehold land and land use rights and development properties (Notes 17, 18, 19 and 24).

Notes to the Consolidated Financial Statements

33 GUARANTEED NOTES

	2016 HK\$'000	2015 HK\$'000
Guaranteed notes	2,711,562	2,706,597
Current portion included in current liabilities	(1,713,719)	—
	997,843	2,706,597

K. Wah International Financial Services Limited ("KWIFS"), a wholly-owned subsidiary of the Company, issued guaranteed notes in the aggregate principal amount of US\$200 million at 100% of face value in 2012. The notes are guaranteed by the Company and carry a coupon rate of 5.375% per annum and have a maturity of 5 years. The notes are listed on The Stock Exchange of Hong Kong Limited. The fair value of the notes as at 31 December 2016 was HK\$1,489 million (2015: HK\$1,473 million).

KWIFS issued guaranteed notes of HK\$150 million at 100% of face value through private placement in 2012. The notes are guaranteed by the Company and carry a coupon rate of 3-month HIBOR+2.75% per annum and have a maturity of 5 years. The carrying amount approximates its fair value.

KWIFS issued additional guaranteed notes of HK\$1 billion at 100% of face value through private placement in 2014. The notes are guaranteed by the Company and carry a coupon rate of 4.25% to 4.73% per annum and have a maturity of 7 years. The fair value of these guaranteed notes as at 31 December 2016 was HK\$1,013 million (2015: HK\$1,015 million).

The fair values of the guaranteed notes are within Level 2 of the fair value hierarchy.

34 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 HK\$'000	2015 HK\$'000
Assets:		
Non-current — Interest rate swaps	—	846
Current — Interest rate swaps	938	—
Liabilities:		
Non-current		
— Forward foreign exchange contract	—	8,629
— Interest rate swaps	986	8,673
	986	17,302
Current — Forward foreign exchange contract	5,004	—

34 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

The notional principal amount of the outstanding forward foreign exchange contract at 31 December 2016 was US\$200 million (2015: US\$200 million).

The notional principal amounts of the outstanding interest rate swaps at 31 December 2016 were HK\$950 million (2015: HK\$950 million).

35 DEFERRED TAXATION

	2016 HK\$'000	2015 HK\$'000
Deferred taxation assets	79,431	100,048
Deferred taxation liabilities	(1,574,946)	(1,645,558)
	(1,495,515)	(1,545,510)

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset taxation assets against taxation liabilities and when the deferred taxes relate to the same fiscal authority. The above assets/(liabilities) are determined after appropriate offsetting of the relevant amounts.

	Accelerated depreciation allowance HK\$'000	Fair value gains HK\$'000	Undistributed profits of subsidiaries HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1 January 2015	(166,796)	(1,102,529)	(301,875)	(18,387)	(1,589,587)
Exchange differences	10,402	63,645	14,457	(3,866)	84,638
(Charged)/credited to profit and loss statement	(16,938)	(28,690)	15,975	(10,908)	(40,561)
At 31 December 2015	(173,332)	(1,067,574)	(271,443)	(33,161)	(1,545,510)
Exchange differences	11,653	67,051	11,488	(3,058)	87,134
(Charged)/credited to profit and loss statement	(15,913)	(72,453)	55,728	(4,501)	(37,139)
At 31 December 2016	(177,592)	(1,072,976)	(204,227)	(40,720)	(1,495,515)

Except for the tax losses, all the other deferred taxation assets and liabilities are expected to be recovered or settled after twelve months.

Deferred taxation assets of HK\$106,833,000 (2015: HK\$125,466,000) arising from unused tax losses of HK\$575,112,000 (2015: HK\$683,054,000) have not been recognised in the financial statements. Unused tax losses of HK\$434,644,000 (2015: HK\$532,915,000) have no expiry date and the remaining balances have various expiry dates up to and including 2021 (2015: up to and including 2020).

Deferred taxation liabilities of HK\$3,285,000 (2015: HK\$8,577,000) arising from temporary differences associated with investments in subsidiaries have not been recognised in the financial statements, as the Group consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not be reversed in the foreseeable future.

Notes to the Consolidated Financial Statements

36 CREDITORS AND ACCRUALS

	2016 HK\$'000	2015 HK\$'000
Trade creditors	1,236,333	972,932
Other creditors	61,298	48,493
Amounts due to non-controlling interests	5,157	5,506
Accrued operating expenses	247,069	274,610
Rental and other deposits received	148,958	131,121
	1,698,815	1,432,662

Amounts due to non-controlling interests are unsecured, non-interest bearing and have no fixed terms of repayments.

The creditors and accruals are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
Hong Kong dollar	327,384	136,668
RMB	1,370,884	1,295,401
Singapore dollar	547	593
	1,698,815	1,432,662

The carrying amounts of the creditors and accruals approximate to their fair value based on prevailing market interest rate.

The aging analysis of the trade creditors of the Group based on the date of the invoices is as follows:

	2016 HK\$'000	2015 HK\$'000
Within one month	1,230,376	821,538
Two to three months	3,125	133,348
Four to six months	401	366
Over six months	2,431	17,680
	1,236,333	972,932

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations

	2016 HK\$'000	2015 HK\$'000
Profit before taxation	5,071,846	2,815,345
Share of profits of joint ventures	(102,807)	(76,286)
Share of profits of associated companies	(790,363)	(115,166)
Finance costs	22,308	61,930
Fair value gain on transfer of development properties to investment properties	(345,936)	—
Change in fair value of investment properties	(107,640)	(113,528)
Depreciation of property, plant and equipment	36,427	42,808
Amortisation of leasehold land and land use rights	121	129
Interest income	(65,335)	(79,729)
Loss on disposal of property, plant and equipment	42	491
Fair value of share options granted	7,721	13,543
Dividend income	(53,620)	(68,243)
Net settlement gain on derivative financial instruments	(12,403)	—
Net fair value (gains)/losses on derivative financial instruments	(11,404)	16,189
Net fair value gains on financial assets at fair value through profit or loss	(2,948)	—
Release of exchange reserve upon reduction of interest in subsidiaries	(61,541)	(198,606)
Operating profit before working capital changes	3,584,468	2,298,877
Decrease/(increase) in development properties	1,824,900	(3,686,162)
Increase in land and tender deposits	(1,160,500)	—
Decrease/(increase) in debtors and prepayments	308,571	(580,685)
Decrease in amounts due from non-controlling interests	8,636	—
Decrease in inventories	625	110
Increase in other non-current assets	(98,659)	(47,215)
Increase in pre-sales deposits	638,516	5,198,777
Increase in creditors and accruals	354,666	103,899
Cash generated from operations	5,461,223	3,287,601

Notes to the Consolidated Financial Statements

38 COMMITMENTS**(a) Contracted but not provided for**

	2016	2015
	HK\$'000	HK\$'000
Commitments in respect of		
— property investment	—	—
— property development	10,239,745	3,491,783
— joint venture	5,618	6,211
	10,245,363	3,497,994

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following periods:

	2016	2015
	HK\$'000	HK\$'000
Within one year	13,900	15,044
Two to five years	3,208	4,343
	17,108	19,387

(c) Operating lease rental receivables

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is receivable in the following periods:

	2016	2015
	HK\$'000	HK\$'000
Within one year	373,587	358,024
Two to five years	553,998	471,127
After five years	116,203	48,821
	1,043,788	877,972

39 GUARANTEES

As at 31 December 2016, the Group has executed the following guarantees in respect of loan facilities granted by banks and financial institutions:

	2016		2015	
	Outstanding HK\$'000	Utilised HK\$'000	Outstanding HK\$'000	Utilised HK\$'000
Joint ventures	117,000	117,000	117,000	117,000
Properties buyers	1,473,448	1,473,448	563,965	563,965
	1,590,448	1,590,448	680,965	680,965

39 GUARANTEES (cont'd)

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties in Mainland China. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

Apart from the above, the Company has executed a guarantee in favour of the Hong Kong Government in respect of the performance obligation of an investee company under a contract with the Hong Kong Government.

40 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions between the Group and related parties, in addition to those disclosed elsewhere in the consolidated financial statements which in the opinion of the Directors, were carried out in the normal course of business during the year:

- (a) Key management personnel comprise Executive Directors of the Company and their emoluments are set out as follows:

	2016 HK\$'000	2015 HK\$'000
Fees	780	780
Salaries and other emoluments	29,153	28,032
Discretionary bonuses	3,504	3,354
Pension costs — defined contribution plans	2,973	2,863
Share option	4,656	7,966
	41,066	42,995

- (b) Rental income from an investee company amounted to HK\$1,410,000 (2015: HK\$1,380,000) based on the terms of rental agreement between the parties.
- (c) Rental expense to related companies amounted to HK\$15,850,000 (2015: HK\$14,988,000) based on the terms of master lease agreement between the parties.
- (d) As at 31 December 2016 and 2015, the Company has executed a guarantee in favour of the Hong Kong Government in respect of the contract for quarrying rights and rehabilitation of the quarry of Tai Sheung Tok Anderson Road of an investee company.
- (e) On 15 January 2016, a subsidiary of the Company entered into four sales and purchase agreements with Dr. Lui Che-Woo, being the Chairman and Managing Director of the Company and also a substantial shareholder of the Company, in respect of four residential units at a total consideration of approximately HK\$13,883,000. The transactions were based on prevailing market prices and completed in January 2017.

Notes to the Consolidated Financial Statements

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY**Balance sheet of the Company**

As at 31 December 2016

	2016	2015
	HK\$'000	HK\$'000
ASSETS		
Non-current asset		
Subsidiaries	259,561	259,561
Current assets		
Amounts due from subsidiaries	3,288,691	3,466,546
Cash and bank deposits	101,524	889
	3,390,215	3,467,435
Total assets	3,649,776	3,726,996
EQUITY		
Share capital	295,674	283,959
Reserves (note a)	3,351,072	3,439,923
Shareholders' funds	3,646,746	3,723,882
LIABILITY		
Current liability		
Creditors and accruals	3,030	3,114
Total equity and liability	3,649,776	3,726,996
Net current assets	3,387,185	3,464,321
Total assets less current liability	3,646,746	3,723,882

Lui Che-woo
Chairman and Managing Director

Paddy Tang Lui Wai Yu
Executive Director

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (cont'd)

(a) Reserve movement of the Company

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2016	1,730,929	53,704	213,560	13	1,441,717	3,439,923
Comprehensive income						
Profit for the year	—	—	—	—	4,989	4,989
Transactions with equity holders						
Fair value of share options	—	7,721	—	—	—	7,721
Exercise of share options	813	(207)	—	—	—	606
Lapse of share options	—	(1,255)	—	—	1,255	—
Shares issued as scrip dividends	(11,685)	—	—	—	—	(11,685)
Reserve arising on scrip dividends	—	—	—	—	396,670	396,670
2015 final dividend	—	—	—	—	(340,776)	(340,776)
2016 interim dividend	—	—	—	—	(146,376)	(146,376)
At 31 December 2016	1,720,057	59,963	213,560	13	1,357,479	3,351,072
At 1 January 2015	1,736,173	41,431	213,560	13	1,487,944	3,479,121
Comprehensive income						
Profit for the year	—	—	—	—	195,445	195,445
Transactions with equity holders						
Fair value of share options	—	13,543	—	—	—	13,543
Lapse of share options	—	(1,270)	—	—	1,270	—
Shares issued as scrip dividends	(5,244)	—	—	—	—	(5,244)
Reserve arising on scrip dividends	—	—	—	—	175,954	175,954
2014 final dividend	—	—	—	—	(278,715)	(278,715)
2015 interim dividend	—	—	—	—	(140,181)	(140,181)
At 31 December 2015	1,730,929	53,704	213,560	13	1,441,717	3,439,923

Notes to the Consolidated Financial Statements

42 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of shares	Amount per share		
Directly held by the Company					
Incorporated in the British Virgin Islands					
Sutimar Enterprises Limited	Hong Kong	100	US\$1	100	Investment holding
Indirectly held by the Company					
Incorporated in Hong Kong					
Century Basis Limited	Hong Kong	1	N/A	100	Property development
Chely Well Limited	Hong Kong	1,000	N/A	72	Investment holding
Chinapex Company Limited	Singapore	1,000	N/A	100	Property investment
Colour Day International Limited	Hong Kong	2	N/A	100	Investment holding
Dragon Star Pacific Limited	Hong Kong	1	N/A	60	Provision of financial services
Enjoy International Limited	Hong Kong	1	N/A	100	Investment holding
Excelsior Mark Limited	Hong Kong	1	N/A	100	Investment holding
Faithfulink Limited	Hong Kong	1	N/A	100	Investment holding
Grand Place Limited	Hong Kong	1	N/A	100	Investment holding
Grand Spark Limited	Hong Kong	1	N/A	100	Property development and investment
Golden Arrow Limited	Hong Kong	1	N/A	100	Investment holding
Goldstar Power Limited	Hong Kong	1	N/A	100	Investment holding
Hero Plaza Limited	Hong Kong	2	N/A	100	Property development
Infinity Profit Limited	Hong Kong	1	N/A	100	Investment holding
K. Wah Financial Services Limited	Hong Kong	2	N/A	100	Provision of financial services
K. Wah Management Services Limited	Hong Kong	100	N/A	100	Provision of management services
K. Wah Project Management Service Limited	Hong Kong	2	N/A	100	Provision of management services
K. Wah Properties Investment Limited	Hong Kong	1,000	N/A	100	Investment holding
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	N/A	100	Investment holding
King Rays Limited	Hong Kong	2	N/A	100	Property development
Lucky Way Investment Limited	Hong Kong	2	N/A	100	Property development
Manful Global Development Limited	Hong Kong	1	N/A	100	Property development
Max Orient Holdings Limited	Hong Kong	1,000	N/A	100	Investment holding
Minter Limited	Hong Kong	2	N/A	100	Investment holding
New Fine Limited	Hong Kong	1	N/A	100	Property development
New Regent Asia Limited	Hong Kong	1	N/A	100	Property development and investment
Orient Profit Limited	Hong Kong	1	N/A	100	Property development
Oriental Control Limited	Hong Kong	1	N/A	100	Investment holding
Polynice Limited	Hong Kong	2	N/A	100	Provision of financial services
Pure United Limited	Hong Kong	1	N/A	100	Investment holding
Raise Union Limited	Hong Kong	1	N/A	100	Investment holding
Royal Mark Investments Limited	Hong Kong	1	N/A	100	Property development
Skyport Fareast Limited	Hong Kong	1	N/A	100	Investment holding
Union Profits Limited	Hong Kong	2	N/A	100	Property investment
United Best Hong Kong Limited	Hong Kong	1	N/A	60	Property development
Victory Way Limited	Hong Kong	9,901,000	N/A	99.99	Investment holding
Wealthy Vision Limited	Hong Kong	1	N/A	100	Investment holding
Well Sense Limited	Hong Kong	1	N/A	100	Investment holding
Winway Global Development Limited	Hong Kong	1	N/A	100	Investment holding
Worldtop China Limited	Hong Kong	1	N/A	100	Investment holding

42 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (cont'd)

(a) Subsidiaries (cont'd)

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of shares	Amount per share		
Indirectly held by the Company (cont'd)					
Incorporated in the British Virgin Islands					
			US\$		
All Smart Profits Limited	Hong Kong	10	1	100	Investment holding
Amazing Enterprises Limited	Hong Kong	10	1	100	Investment holding
Bestfull Profits Limited	Hong Kong	10	1	100	Investment holding
Choice Treasure Limited	Hong Kong	10	1	60	Investment holding
Cyber Point Assets Limited	Hong Kong	10	1	100	Investment holding
Gold City Holdings Limited	Hong Kong	10	1	100	Investment holding
Greatest Smart Limited	Hong Kong	10	1	100	Investment holding
Grow Ever Limited	Hong Kong	1	1	100	Investment holding
K. Wah International Financial Services Limited	Hong Kong	10	1	100	Provision of financial services
League Trend Limited	Hong Kong	1	1	100	Investment holding
Lehane Properties Limited	Hong Kong	10	1	100	Investment holding
Million Link Group Limited	Hong Kong	1	1	100	Investment holding
Proper Land Limited	Hong Kong	1	1	100	Investment holding
Ragon Properties Limited	Hong Kong	10	1	100	Investment holding
Select Vantage Profits Limited	Hong Kong	10	1	100	Investment holding
Top Ridge Management Limited	Singapore	10	1	100	Property investment
Treasure Easy Limited	Hong Kong	10	1	100	Investment holding
Incorporated in Mainland China					
		Registered capital			
Wholly-owned foreign enterprise					
廣州市嘉華花都置業有限公司	Guangzhou		HK\$488,000,000	100	Property development
廣州嘉揚房地產開發有限公司	Guangzhou		HK\$300,000,000	100	Property development
江門市嘉豐房地產開發有限公司	Jiangmen		HK\$36,000,000	100	Property development
K. Wah (China) Investment Co., Ltd.	Shanghai		US\$118,000,000	100	Investment holding
上海嘉敏房地產開發經營有限公司	Shanghai		US\$110,230,000	100	Property development
上海嘉澤房地產開發經營有限公司	Shanghai		RMB800,000,000	100	Property development
上海嘉爵房地產開發經營有限公司	Shanghai		RMB600,000,000	100	Property development
上海嘉悅房地產開發經營有限公司	Shanghai		RMB700,000,000	100	Property development
Shanghai Jia Zhao Real Estate Development Co., Ltd.	Shanghai		US\$119,500,000	100	Property development
Shanghai Jiashen Real Estate Development Co., Ltd.	Shanghai		US\$126,000,000	100	Property development and investment
Shanghai Jia Gang Cheng Real Estate Development Co., Ltd.	Shanghai		US\$13,000,000	100	Property development
南京嘉耀房地產開發有限公司	Nanjing		RMB1,800,000,000	100	Property development
Tianjin Jia Run Hua Property Development Co., Ltd.	Tianjin		US\$29,880,000	100	Property development
Tianjin Jia Run He Property Development Co., Ltd.	Tianjin		US\$29,980,000	100	Property development
東莞廣裕房地產開發有限公司	Dongguan		HK\$911,000,000	100	Property development
Cooperative joint venture					
廣州匯城房地產開發有限公司	Guangzhou		HK\$600,000,000	99	Property development
Equity joint venture					
Shanghai Jia Hui Da Real Estate Development Co., Ltd.	Shanghai		US\$20,000,000	69.6	Property investment
上海凱通文安建設開發有限公司	Shanghai		RMB234,000,000	53.61	Property development

Notes to the Consolidated Financial Statements

42 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES
(cont'd)

(b) Joint Ventures

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of shares	Amount per share		
Indirectly held by the Company					
Incorporated in Hong Kong					
Anglers' Bay Property Management Company Limited	Hong Kong	2	N/A	50	Property management
Prime Force Limited	Hong Kong	2	N/A	50	Property development
Teamer International Limited	Hong Kong	1	N/A	35	Property development
Ace Glory Limited	Hong Kong	1	N/A	25	Property development
Ample Excellent Limited	Hong Kong	2	N/A	50	Property development
Incorporated in the British Virgin Islands					
			US\$		
Full Raise International Limited	Hong Kong	1,000	1	25	Investment holding
Homeast Limited	Hong Kong	1,000	1	35	Investment holding

(c) Associated Companies (note)

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of shares	Amount per share		
Indirectly held by the Company					
Incorporated in Hong Kong					
Jet Union Development Limited	Hong Kong	1	N/A	40	Property development and investment
King Regent Limited	Hong Kong	1	N/A	15	Property development and investment
Pacific Bond Limited	Hong Kong	1	N/A	15	Property development
Union King (Hong Kong) Limited	Hong Kong	1	N/A	15	Property development and investment
Incorporated in the British Virgin Islands					
			US\$		
Garwin Investment Limited	Hong Kong	1,000	1	15	Investment holding
Great Virtue Developments Limited	Hong Kong	10	1	40	Investment holding
Nimble Limited	Hong Kong	100	1	15	Investment holding
Vantage Plus Investments Limited	Hong Kong	100	1	15	Investment holding

Note: Despite its 15% equity interest in each of these companies, significant influence is exercised in the management and thus these companies have been accounted for associated companies of the Group through the participation in the Board.

The Group's Significant Properties

As at 31 December 2016

	Type of Property	Gross Floor Area sq. metres (Approximately)	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
INVESTMENT AND OTHER PROPERTIES						
Hong Kong						
K. Wah Centre 28th, 29th and 30th Floors, 191 Java Road, North Point, Hong Kong	Office	2,926	100	2106	Completed	Existing
J SENSES 60, 60A-66 Johnston Road, Wanchai, Hong Kong	Commercial	3,400	100	2054	Completed	Existing
Mainland China						
Shanghai K. Wah Centre No. 1010 Huaihai Zhong Road, Xuhui District, Shanghai	Office	72,000	69.6	2047	Completed	Existing
Stanford Residences Lane 1999, Xinzha Road, Jingan District, Shanghai	Residential	29,000	100	2072	Completed	Existing
Crowne Plaza Guangzhou Huadu and Office Yingbin Road, Xinhuaazhen, Huadu District, Guangzhou	Hotel/Office	45,000	100	2039 to 2069	Completed	Existing
DEVELOPMENT PROPERTIES						
Hong Kong						
Chantilly ⁽²⁾ No. 6 Shiu Fai Terrace, Hong Kong	Residential	5,100 ⁽¹⁾	100	2070	Completed	Existing
Marinella 9 Welfare Road, Aberdeen, Hong Kong	Residential	2,900 ⁽¹⁾	35	2057	Completed	Existing
Providence Peak 8 Fo Chun Road, Tai Po, New Territories	Residential	3,500 ⁽¹⁾	25	2057	Completed	Existing
Providence Bay 5 Fo Chun Road, Tai Po, New Territories	Residential	6,500 ⁽¹⁾	15	2057	Completed	Existing
Mayfair By The Sea I 23 Fo Chun Road, Tai Po, New Territories	Residential/ Commercial	2,100 ⁽¹⁾	15	2059	Completed	Existing
Twin Peaks ⁽³⁾ 9 Chi Shin Street, Tseung Kwan O, New Territories	Residential/ Commercial	2,800	100	2062	Completed	Existing
Corinthia By The Sea 23 Tong Yin Street, Tseung Kwan O, New Territories	Residential/ Commercial	4,600	40	2062	Completed	Existing
The Spectra 8 Kwong Yip Street, Yuen Long, New Territories	Residential	49,000	60	2063	Construction	2017
K. City 7 Muk Ning Street, Kowloon	Residential	51,000	100	2064	Construction	2018
2 Grampian Road, Kowloon	Residential	2,000	100	2047	Foundation	2019
No. 30 Po Shan Road, Mid-levels, Hong Kong	Residential	3,700	50	2090	Planning	2019 or beyond
Tai Po Town Lot No. 226	Residential	61,600	100	2065	Planning	2019 or beyond
New Kowloon Inland Lot No. 6566, Kai Tak Area 1K Site 2	Residential	53,000	100	2067	Planning	2019 or beyond

Note 1: For certain properties, Gross Floor Area includes covered area of all saleable units and their respective share of common area as referred to or to be referred to in sales brochures.

Note 2: Certain units of Chantilly (approximately 2,400 sq. metres) were transferred to investment properties during the year.

Note 3: The commercial portions of Twin Peaks (approximately 2,500 sq. metres) were transferred to investment properties during the year.

The Group's Significant Properties

As at 31 December 2016

	Type of Property	Gross Floor Area sq. metres (Approximately)	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
DEVELOPMENT PROPERTIES (cont'd)						
Mainland China						
Le Palais No. 217, Jianshe Road (North) Huadu District, Guangzhou	Residential	18,300	100	2077	Completed	Existing
J Metropolis Xinhuazhen, Huadu District, Guangzhou	Residential/ Commercial	Phase 1: 11,400 Phase 2: 12,700 Phase 3: 40,000 Phase 4: 34,000 Others: 567,000	99	2034 to 2068	Phase 1 & 2: Completed Phase 3 & 4: Construction Others: Planning	Phase 1 & 2: Existing Phase 3 & 4: 2017 Others: 2019 or beyond
J Wings Yingbin Road, Xinhuazhen, Huadu District, Guangzhou	Residential	9,300	100	2039 to 2069	Completed	Existing
Huadu Jiahua Plaza Yingbin Road, Xinhuazhen, Huadu District, Guangzhou	Residential/ Commercial	86,000	100	2039 to 2069	Construction	2018
The Palace 236 Jianguoxi Road, Xuhui District, Shanghai	Residential/ Commercial	Phase 1: 4,700 Phase 2: 35,000 Phase 3: 43,000 Serviced Apartment: 26,000	100	2065	Phase 1: Completed Others: Construction	Phase 1: Existing Others: 2017
Grand Summit Lane 1999, Xinzha Road, Jingan District, Shanghai	Residential	9,500	100	2072	Completed	Existing
Windermere Plot B3, B4 Zhujiajiao Qingpu District, Shanghai	Residential/ Commercial	71,000	100	2050 to 2080	Completed	Existing
Azure 58 Jingye Road, Pudong New District, Shanghai	Residential	29,000	100	2083	Construction	2017
Site 7-7, Unit E18, Weifang Village Street, Pudong District, Shanghai	Residential	14,200	100	2084	Planning	2019 or beyond
Silver Cove Phases I & II 111 Xihu Zhong Road, Xihu District, Shilong Town, Dongguan	Residential/ Commercial	70,200	100	2082	Completed	Existing
Silver Cove Phase III North Side of Wan Long Road, Xihu District, Shilong Town, Dongguan	Residential/ Commercial	34,000	100	2084	Construction	2017
The Peak 19 Xingxian Road, Nanjing	Residential/ Commercial	132,000	100	2054 to 2084	Construction	2018
Suhe Creek, Jingan District	Office	20,000	53.61	2056	Planning	2019 or beyond
Site G89, Jiangning District, Nanjing	Residential/ Commercial	49,700	100	2057 to 2087	Planning	2019 or beyond

The information materials, drawings and photos of the developments in Hong Kong (inclusive of the developments under construction) as provided in this Annual Report are for the purpose of the Annual Report of K. Wah International Holdings Limited (“KWIH”) (please refer to the sales brochures for details of the respective developments) and are not and do not form part of any advertisements purporting to promote the sale of any residential property, and do not constitute and shall not be construed as constituting any offer, representation, warranty, covenant or contractual term whether expressed or implied (whether related to view or not). No publishing or transfer to any third party is allowed without the prior written consent of KWIH and the respective vendors as stated in the sales brochures of the respective developments (“Vendor”). KWIH and the respective Vendors shall not be liable for any reliance of these information, drawings and photos by any party for his/her decision on purchase of any residential property in the respective developments or otherwise.

In respect of any design concept drawings of the respective residential developments in these information materials, drawings and photos, they are products of computer renderings, represent an artist’s impression of the respective developments or the part of the respective developments concerned, and are for reference only. Pipes, conduits, air-conditioners, grilles etc. which might exist on the external walls, flat roofs or roofs, etc. of the respective developments and the surrounding environment and buildings of the respective developments have been omitted. The renderings do not simulate or reflect the actual appearance and the surrounding environment of the respective developments. The design concept drawings do not simulate or reflect the view from any part of the respective developments and the present or future condition of the surrounding environment and buildings of the respective developments. The layout, partition, specifications, dimensions, colour, materials, fittings, finishes, appliances, furniture, household goods, display, decorations, shops, signs, clubhouse facilities, plant, landscaping, lighting features and lightings, etc. shown in the design concept drawings might be different from those, if any, to be actually provided in the respective developments. The respective Vendors reserve the right to alter the building plans. The building plans are subject to the final approvals of the relevant Government authorities. The respective Vendors reserve the right to alter or increase or reduce the number of clubhouse and recreational facilities. The provision of clubhouses and recreational facilities are subject to the terms and conditions of the agreements of sale and purchase and the final approvals of the relevant Government authorities. The opening time and use of different clubhouses and recreational facilities are subject to the relevant laws, land grant conditions, terms of the deed of mutual covenant and the actual conditions of the facilities.

本年報中關於香港的發展項目（包括在建中的發展項目）的資訊，繪圖及圖片乃嘉華國際集團有限公司（「嘉華國際」）為其年報而提供的（該等發展項目的詳情請參閱該等發展項目的售樓說明書），其本意並非促銷任何住宅物業的廣告或組成廣告的部分，也不構成亦不得詮釋作構成任何不論明示或隱含之要約、陳述、保證、承諾或合約條款（不論與景觀是否有關）。未得嘉華國際及該等發展項目的售樓書中所列明的賣方（「賣方」）的書面同意不可向第三方發布或轉發。嘉華國際及各賣方對任何人士依賴本資訊、繪圖及圖片而作出購買該等發展項目中的任何住宅物業或其他的決定不承擔任何責任。

該等發展項目資訊、繪圖及照片中的該等住宅物業發展項目設計概念圖乃電腦模擬效果，純屬畫家對各該等發展項目或該等發展項目相關部分之想像，僅供參考。該等發展項目外牆、平台、天台等上可能存在之喉管、管線、冷氣機、格柵等及該等發展項目周邊地區環境及建築物並無顯示。設計概念圖並非模擬亦不反映該等發展項目任何部分之實際外觀或該等發展項目周邊地區環境。各設計概念圖非模擬亦不反映該等發展項目內任何部分的景觀及現在及將來的周邊地區環境及建築物等的狀況。各設計概念圖所示之布局、間隔、規格、尺寸、顏色、用料、裝置、裝修物料、設備、家具、家居用品、擺設、裝飾、商舖、招牌、會所設施、植物、園景、燈飾及照明裝置等可能會與該等發展項目所實際提供者（如有）不同。各賣方保留權利改動建築圖則。建築圖則以有關政府部門最後批准者為準。各賣方保留權利改動及增減會所及康樂設施。會所及康樂設施之提供以買賣合約條款及條件及有關政府部門最後批准者為準。不同會所及康樂設施之開放時間受相關法律、批地文件及公契條款及現場環境狀況限制。

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