Pacific Century
Premium Developments
盈科大衍地產發展

STOCK CODE: 00432

ANNUAL REPORT 2016

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

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

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

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

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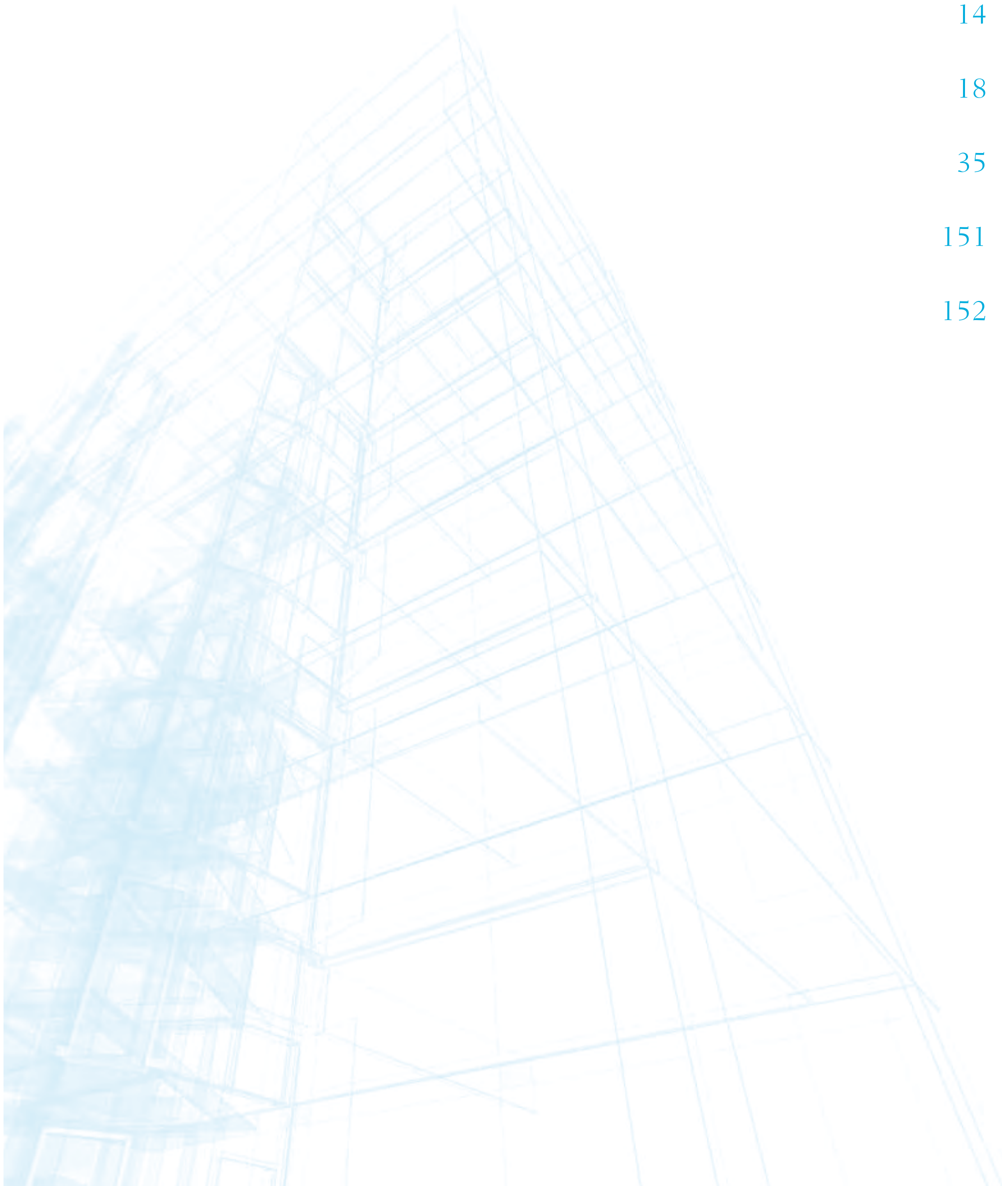


CORPORATE PROFILE

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

PROPERTY DEVELOPMENT AND INVESTMENT

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

The Group is continuously exploring potential investment opportunities throughout Asia and around the world. In line with this strategy, it has drawn up long-term plans for the development of world-class all-season resorts in Hokkaido, Japan and Phang-nga, southern Thailand. In 2013, the Group increased its presence in Asia by acquiring a site located in Sudirman CBD, a prime business district in Jakarta, Indonesia, where it plans to develop a Premium Grade A office building for investment purposes.

PROPERTY AND ASSET MANAGEMENT

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

STATEMENT FROM THE CHAIRMAN

BEING A PROPERTY DEVELOPER WITH AN EMPHASIS ON CORPORATE CITIZENSHIP, THIS PROJECT IN JAKARTA VIVIDLY DEMONSTRATES OUR COMMITMENT TO SUSTAINABILITY AND COMMUNITY ENGAGEMENT.

In 2016, the world was surprised by the results of the Brexit referendum and the US presidential election, which are likely to bring unprecedented and far-reaching political and economic repercussions in the years ahead.

The new US president will be inaugurated on January 20, 2017. However, the US dollar index and bond yields have surged significantly with growing expectation of inflation and interest rate hikes. As interest rate was hiked on December 14, 2016, further increases are expected over the coming year and beyond. Reactions to the results of the Brexit referendum have been subdued, but the increased economic, political, and institutional uncertainties as well as the possible decrease in trade and financial flows between the UK and the EU members are expected to have negative impact on the macro-economy in the medium term.

Faced with these uncertainties, we believe that maintaining a solid balance sheet with sufficient cash reserves is in line with the interest of PCPD shareholders. The Group is well positioned to seize new opportunities by using its cash and exercising appropriate leverage. The management team is working hard to identify opportunities around the world. Some of the projects are being identified for further assessment.

The three overseas projects in Japan, Indonesia and Thailand are progressing as scheduled.

Sustainable development is a core aspect of our sound strategy and an integral part of our pursuit of sustainability to create value for our stakeholders. As a signature of green development, the Group's 40-storey Premium Grade A office building in Jakarta, Indonesia, topped out in July 2016, is scheduled to be completed this year.

Being a property developer with an emphasis on corporate citizenship, this project vividly demonstrates our commitment to sustainability and community engagement. The building has received eight environmental and sustainable awards and recognitions so far, including (1) LEED Pre-certification Platinum grade in 2014; (2) Greenship Design Recognition Platinum grade in 2014; (3) HKGBC 2014 Green Building Award finalist under the New Building Category (Building under design); (4) Winner of the Best Green Building Development of Indonesia Property Awards in 2015; (5) Highly commended Best Office Building of Indonesia Property Awards in 2015; (6) Highly commended Best Green Development of South East Asia Property Award in 2015; (7) Special Recognition in Sustainable Development of Indonesia Property Awards in 2016; and (8) Highly commended Best Office Architectural Design of Indonesia Property Award in 2016.

We are pleased to report that the leasing activities are also going well with a number of renowned multinational corporations committed to occupying office space in this new landmark in the heart of Jakarta city.

I would like to express my thanks to the management team and all staff members in Hong Kong and overseas offices for their work to the Group throughout 2016.

Richard Li
Chairman

January 16, 2017

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

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

The Group recorded the consolidated revenue of approximately HK$174 million for the financial year ended December 31, 2016. This represented an increase of approximately 5 per cent as compared to its revenue of approximately HK$165 million for 2015.

The Group's consolidated operating loss amounted to approximately HK$357 million in 2016, as compared to an operating loss of approximately HK$280 million for 2015.

The consolidated net loss attributable to equity holders of the company totalled approximately HK$364 million in 2016, as compared to a loss, after an adjustment of gain on disposal of subsidiaries in 2014, of approximately HK$81 million for 2015. Basic loss per share was approximately 22.96 Hong Kong cents, as compared to the basic loss per share of 5.12 Hong Kong cents for 2015.

The Board of Directors has not recommended a final dividend for the year ended December 31, 2016.

The Group's Premium Grade A office building in Jakarta, Indonesia was topped out on July 31, 2016. The interior works, building services and façade installation are in progress. The Group is confident that the building will be completed this year.

The building is unique for its environmentally friendly features and sustainability concept. Once again, the building design was recognized with another two honours from the Indonesia Property Award 2016 – "Special Recognition in Sustainable Development" and "Highly Commended Best Office Architectural Design". The former was awarded in recognition of our effort in promoting sustainable property development in Indonesia, whereas the latter focused on the building design.

In addition to Citibank Indonesia, Sotheby's Hong Kong Limited and FWD, the NorthStar Group has agreed to relocate its office to the building. Approximately 20 per cent of the office floor space has been secured by tenants. Other companies have also expressed interest in moving their regional headquarters or Indonesia representative offices to the building.

The Indonesian government has shown its commitment to boosting the country's overall economic growth through investment in infrastructure, which is conducive to attracting foreign investments to this largest economy in Southeast Asia. We believe that our building located in the heart of Sudirman CBD will benefit from the inflow of foreign investments.

As for the project in Hokkaido, Japan, Park Hyatt Hotel and Branded Residences are expected to be completed in late 2019. The Group is striving to achieve its goal of launching the residential part for sale in the first quarter of 2017. The Japan government has set a target of doubling the number of visitors recorded in 2015 to 40 million by 2020. The emphasis on tourism industry is one of Prime Minister Shinzo Abe's strategies to boost Japan's economic growth. To facilitate more tourist flow into the area, Hokkaido launched the high-speed Hokkaido Shinkansen Line in March 2016 to connect directly with Tokyo. The Kutchan government in Hokkaido, where our site is administered by, has expressed strong support for our project.

Our project in Phang-nga, Thailand is also proceeding and in early discussion with a local developer of the first phase of the project.

Robert Lee
Deputy Chairman and
Chief Executive Officer

January 16, 2017

KEY BUSINESS STRATEGIES

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

For this purpose, we embrace three key business strategies:

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

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

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

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

3. ***Maintain a solid and healthy financial position***

   We will continue to maintain a robust financial status with optimal gearing and a healthy debt/equity ratio that will enable us to finance our existing projects and proceed with potential investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited ("Company") and its subsidiaries (together with the Company, "Group") for the year ended December 31, 2016 is set out below.

REVIEW OF OPERATIONS

Property investment and development

Property investment in Indonesia

The Group's investment located at Sudirman CBD of Jakarta Indonesia, was topped out on July 31, 2016. The interior works, building services and façade installation are proceeding according to schedule and expect completion in the second quarter of 2017.

PT Prima Bangun Investama, the Group's development arm of the project in Indonesia, was awarded the "Special Recognition in Sustainable Development" in recognition of the contribution to the sustainable development whereas the 40-storey Premium Grade A landmark office building was awarded the "Highly Commended Best Office Architectural Design", both by Indonesia Property Award 2016. The environmentally friendly features and sustainability concept of the building are well-conceived.

In addition to Citibank Indonesia, Sotheby's Hong Kong Limited and FWD, the NorthStar Group has agreed to relocate its office to the building. To date, approximately 20 per cent of the office floor space has been secured by tenants. Some multinational corporations have also expressed interests in moving their regional headquarters or Indonesia representative offices to the building.

Property development in Japan

As reported in November 2015, the detailed designs of the Park Hyatt Hotel and Branded Residences at Hanazono in Niseko, Hokkaido, Japan, are being worked on as scheduled and the Group expects to unveil the hotel in late 2019 and anticipates launching the residential portion for pre-sale in the first quarter of 2017.

The Park Hyatt Hotel and Branded Residences will comprise with a selection of specialty restaurants, extensive meeting space, a golf clubhouse, a ski shop and valet, a destination spa, a fitness centre and a swimming pool.

With strong support of the local government and community, the Group is determined to bring the Park Hyatt Hotel and Branded Residences to Niseko, one of the top Asia's ski resort destinations.

Property development in Thailand

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

Recreation and leisure

All-season recreational activities in Japan

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

The Group's revenue from its all-season recreational activities amounted to approximately HK$92 million for the year ended December 31, 2016, as compared to approximately HK$78 million in 2015.

Property management related services

Property management and facilities management in Hong Kong

The Group provides exceptional property management and facilities management services to its clients in Hong Kong and generated revenue of approximately HK$47 million for the year ended December 31, 2016, as compared to approximately HK$51 million in 2015.

Other businesses

Other businesses of the Group mainly include property management in Japan, property investment in Hong Kong and asset management in Mainland China. The revenue from these other businesses amounted to approximately HK$35 million for the year ended December 31, 2016, as compared to approximately HK$36 million in 2015.

FINANCIAL REVIEW

Review of results

The consolidated revenue of the Group was approximately HK$174 million for the year ended December 31, 2016, representing an increase of approximately 5 per cent from approximately HK$165 million in 2015.

The consolidated gross profit of the Group for the year ended December 31, 2016 was approximately HK$118 million, representing an increase of approximately 6 per cent from approximately HK$111 million in 2015. For the year ended December 31, 2016, the gross profit margin was 68 per cent as compared to 67 per cent in 2015. The increase in consolidated gross profit was mainly due to the increase in revenue in 2016.

The general and administrative expenses were approximately HK$418 million for the year ended December 31, 2016, representing an increase of 7 per cent from approximately HK$389 million in 2015. Such increase was mainly due to the increase in staff and consultant costs incurred during the year.

The Group reported a loss of HK$60 million in "other losses, net" being the fair value adjustment of a call spread option ("Option") expired on June 27, 2016. The Option was purchased on June 25, 2015 for the purpose of managing the risk of foreign currency exposure arising from the Group's net investment in the foreign operation in Indonesia. There was no cash flow impact to the Group in the year ended December 31, 2016.

The consolidated operating loss for the year ended December 31, 2016 increased to approximately HK$357 million, as compared to approximately HK$280 million in 2015. Such increase was mainly due to the recognition of fair value adjustment of the Option in 2016.

As a result of the above, the Group recorded a consolidated net loss after taxation of approximately HK$364 million for the year ended December 31, 2016, as compared to approximately HK$81 million in 2015 after the reversal of provision for tax and direct expenses of approximately HK$192 million in relation to the disposal of subsidiaries in 2014. Basic loss per share during the year under review was 22.96 Hong Kong cents, as compared to basic loss per share of 5.12 Hong Kong cents in 2015.

Current assets and liabilities

As at December 31, 2016, the Group held current assets of approximately HK$1,663 million (December 31, 2015: HK$2,890 million), mainly comprising cash and bank balances, sales proceeds held in stakeholders' accounts, restricted cash and prepayments, deposits and other current assets. The decrease in current assets was mainly due to the de-recognition of derivative financial instrument upon its expiry during the year and the cash used in the development project. Cash and bank balances (including cash and cash equivalents and short-term deposits) decreased by approximately 52 per cent from approximately HK$1,816 million as at December 31, 2015 to approximately HK$871 million as at December 31, 2016 for operational purpose and payment of construction costs while the development project in Indonesia was partly financed by loan drawdown in 2016. Sales proceeds held in stakeholders' accounts amounted to approximately HK$510 million as at December 31, 2016 (December 31, 2015: HK$513 million). The level of restricted cash increased to approximately HK$103 million as at December 31, 2016 from approximately HK$96 million as at December 31, 2015 as approximately HK$8 million was parked in the interest reserve account pledged for the loan drawdown during the year. As at December 31, 2016, the current ratio was 1.51 (December 31, 2015: 3.72).

As at December 31, 2016, the Group's total current liabilities amounted to approximately HK$1,102 million, as compared to approximately HK$777 million as at December 31, 2015. Such increase was due to the loan drawdown during the year which was classified as current liabilities; such classification was based on the fact that the loan facilities would be expired on or before six months after the completion of the property in Indonesia or December 31, 2017, whichever is earlier.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital structure, liquidity and financial resources

As at December 31, 2016, the Group's borrowings amounted to approximately HK$457 million (December 31, 2015: Nil), which represented the amortised cost of a financial liability in respect of the term loan with principal amount of US$60 million (equivalent to approximately HK$465 million) drawn down in 2016.

On January 21, 2014, the Group entered into agreements to obtain loan facilities by which the lenders syndicate would make available term loan facilities which in the aggregate shall not exceed US$200 million of which US$140 million remained undrawn by the Group as at December 31, 2016.

As at December 31, 2016, the net debt-to-equity ratio was not applicable (December 31, 2015: not applicable) given the net debt was zero after deducting the aggregate of cash and cash equivalents and short-term deposits of HK$871 million from the principal amount of borrowings of HK$465 million.

The Group's borrowings were denominated in US dollars while cash and bank deposits were held mainly in US dollars and Hong Kong dollars. The Group has foreign operations, and certain of its net assets are exposed to the risk of foreign currency exchange rate fluctuations. As at December 31, 2016, the assets of the Group in Indonesia, Thailand and Japan represented approximately 58 per cent, 9 per cent and 10 per cent of the Group's total assets respectively. The Group's currency exposure with respect to these operations is subject to fluctuations in the exchange rates of Indonesian Rupiah, Thai Baht and Japanese Yen. On June 25, 2015, the Group has entered an Indonesian Rupiah/US dollars currency option with notional amount of US$200 million to manage the Indonesian Rupiah currency exposure. Such option has been expired on June 27, 2016.

Cash used in operating activities for the year ended December 31, 2016 was approximately HK$411 million, as compared to cash generated from operating activities of approximately HK$435 million in 2015 as the Group received net surplus proceeds distribution of the Cyberport project in 2015.

Income tax

The Group's income tax for the year ended December 31, 2016 were approximately HK$18 million, as compared to approximately HK$5 million in 2015. The increase was mainly due to the de-recognition of deferred income tax liabilities in 2015.

Security on assets

As at December 31, 2016, certain assets of the Group and equity interests in companies within the Group with an aggregate carrying value of approximately HK$3,399 million (December 31, 2015: HK$2,268 million) and performance guarantee of approximately HK$161 million (December 31, 2015: HK$161 million) were mortgaged and pledged to banks as security for the loan facilities.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2016, the Group employed a total number of 427 staff in Hong Kong and overseas. The remuneration policies of the Group are in line with prevailing industry practices. Bonuses are paid on a discretionary basis taking into account factors such as performances of individual employees and the Group's performance as a whole. The Group provides comprehensive employee benefits, including medical insurance, a choice of provident fund or mandatory provident fund as well as training programs. The Group is also a participating member of the PCCW employee share incentive award schemes.

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

DIVIDEND AND DISTRIBUTION

The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2016 (2015: Nil).

The Board did not declare an interim dividend to shareholders nor an interim distribution to bonus convertible noteholders for the year ended December 31, 2016 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS AND CLOSURE OF REGISTER OF NOTEHOLDERS

The Company's register of members will be closed from March 9, 2017 to March 10, 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on March 8, 2017.

The Company's register of noteholders of bonus convertible notes will be closed from March 9, 2017 to March 10, 2017, both days inclusive, during which period no transfer of bonus convertible notes will be effected. In order to be entitled to attend the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant note certificates, should be lodged with the bonus convertible note registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on March 8, 2017.

OUTLOOK

Looking forward in 2017, we will likely see the gradual normalisation of the US's monetary policy and the administration of the new US president. Meanwhile, the UK looks set to start the formal process of leaving the European Union by the end of March, whereas France and Germany will have their presidential elections later this year. All these incidents and their outcomes are likely to trigger a financial turmoil across the world. We anticipate global markets will be eventful throughout the year with increased volatility and intensity.

Emerging markets in Asia are threatened by capital outflow and currency depreciation as the strong US dollar is expected to remain for a period of time. Since majority of the Group's assets are located overseas, the Group is inevitably exposed to certain risks of currency fluctuation. We will meticulously manage these risks so as to minimise the impact.

On the other hand, the Group intends to retain cash and exercise appropriate leverage to fund the overseas projects as well as to look for opportunities worldwide that can offer good returns with manageable risks.

Pacific Century Place Jakarta, the Group's Premium Grade A office building in Jakarta, Indonesia, will be completed in this year. The building is expected to generate stable recurring rental income to the Group. The leasing activities of the office building are progressing well, Citibank Indonesia, Sotheby's Hong Kong Limited, FWD and the NorthStar Group, have agreed to occupy some of the office space.

The project in Japan and Thailand are also proceeding as scheduled.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Chairman

Mr Li, aged 50, is an Executive Director and the Chairman of Pacific Century Premium Developments Limited ("PCPD"), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee of PCPD Board. He became a director of PCPD in May 2004. He also holds positions in the following companies:

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

Mr Li is an Independent Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

LEE Chi Hong, Robert
Deputy Chairman and
Chief Executive Officer

Mr Lee, aged 65, is an Executive Director, the Deputy Chairman, the Chief Executive Officer of PCPD, a member of PCPD's Executive Committee and is a Director of certain PCPD subsidiaries. He became a director of PCPD in May 2004. He is also an Executive Director of PCCW and a member of PCCW's Executive Committee and is a Director of certain PCCW subsidiaries.

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

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

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

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

James CHAN

Mr Chan, aged 63, is an Executive Director, the Project Director of PCPD, a member of PCPD's Executive Committee and is a Director of certain PCPD subsidiaries. He became a director of PCPD in August 2005. Mr Chan is responsible for managing various property projects of PCPD and its subsidiaries. He was responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. Mr Chan has become an Independent Non-Executive Director of Beijing Properties (Holdings) Limited since June 2011 and a Non-Executive Director of Viva China Holdings Limited since June 2013.

Prior to joining PCCW in October 2002, Mr Chan was a practising architect and had worked for a major developer in Hong Kong, with comprehensive experience in design, planning and land matters, design development and construction management of major investment properties, which included a wide range of industrial and warehousing, commercial, retail and residential developments in Hong Kong and overseas. Mr Chan possesses a wide spectrum of experience in the real estate industry and has been active in the real estate business for more than 38 years.

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

BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof WONG Yue Chim, Richard, SBS, JP

Prof Wong, aged 64, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Audit Committee and a member of PCPD's Remuneration Committee and Nomination Committee of the Board. He became a director of PCPD in July 2004.

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

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

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

Prof Wong is also an Independent Non-Executive Director of Industrial and Commercial Bank of China (Asia) Limited (withdrawal of listing of shares on The Stock Exchange of Hong Kong Limited since 21 December 2010).

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

Dr Allan ZEMAN, GBM, GBS, JP

Dr Zeman, aged 68, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Nomination Committee of the Board and a member of PCPD's Audit Committee of the Board. He became a director of PCPD in June 2004.

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

Having lived in Hong Kong for over 46 years, Dr Zeman has been very involved in Government services as well as community activities. He is the appointed member of the Economic Development Commission of Hong Kong, a member of the General Committee of the Hong Kong General Chamber of Commerce, a member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong and a member of the Asian Advisory Board of the Richard Ivey School of Business, The University of Western Ontario. In January 2015, Dr Zeman was appointed by the Chief Executive of the HKSAR Government to be a Representative of Hong Kong China to the Asia-Pacific Economic Cooperation Business Advisory Council. In June 2015, Dr Zeman was appointed as a board member of the Airport Authority of Hong Kong. Dr Zeman is also a board member of The Hong Kong Entrepreneurs Fund of Alibaba Group which was launched in November 2015. Dr Zeman was the Chairman of Hong Kong Ocean Park from July 2003 to June 2014 and he is now the honorary advisor to the Park.

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

CHIANG Yun

Ms Chiang, aged 49, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Remuneration Committee of the Board and a member of PCPD's Audit Committee and Nomination Committee of the Board. She became a director of PCPD in May 2015.

Ms Chiang has over 23 years of private equity investment experience and is now a founding managing partner of Pacific Alliance Equity Partners, the private equity division of Pacific Alliance Group ("PAG"). Prior to joining PAG, she was a vice president in AIG Investment Corporation. She is currently an Independent Non-Executive Director of the following listed companies in Hong Kong:

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

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

(3) Merlin Entertainments Plc.

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

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE CODE

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

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") during the year ended December 31, 2016, except for code provision E.1.2 of the CG Code as the Chairman of the Board was unable to attend the Company's annual general meeting held on May 4, 2016 due to an urgent business trip. Prof Wong Yue Chim, Richard, an independent non-executive director, chaired the annual general meeting pursuant to the Company's bye-laws and was available to answer questions.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

The Company has made specific enquiries with all the directors of the Company and they confirmed that they had complied with the requirements under the PCPD Code for the year ended December 31, 2016.

BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company ("Board") comprises three executive directors and three independent non-executive directors. The biographies of all the directors as of the date of this report are set out on pages 14 to 17 of this annual report.

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

BOARD OF DIRECTORS – CONTINUED

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

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

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

4. consideration of dividend policy and dividend amount; and

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS – CONTINUED

The Board has a structured process to evaluate its own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which has been completed by each director. The objectives of the evaluation are to assess whether the Board and the committees, as well as the directors have adequately and effectively performed its/their roles and fulfilled its/their responsibilities; and have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Board and committees continue to operate effectively and that the performance of the directors and time commitment in discharging their duties as directors of the Company for the year ended December 31, 2016 were generally satisfactory.

The directors acknowledge their responsibilities for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profits and cashflows of the Group and which are prepared in accordance with the Hong Kong Financial Reporting Standards, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules. In preparing the financial statements for the year ended December 31, 2016, the directors and the Chief Financial Officer have selected suitable accounting policies and applied them consistently, made judgments and estimates that were prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and prepared the financial statements on a going concern basis. The directors and the Chief Financial Officer are responsible for keeping proper accounting records which would reflect with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 64 to 69.

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

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

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

EXECUTIVE COMMITTEE

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

Current members of the Executive Committee are:

1. Li Tzar Kai, Richard *(Chairman)*
2. Lee Chi Hong, Robert
3. James Chan

REMUNERATION COMMITTEE

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

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

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

1. Chiang Yun *(Chairlady)*
2. Li Tzar Kai, Richard
3. Prof Wong Yue Chim, Richard

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE – CONTINUED

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

In the year ended December 31, 2016, two Remuneration Committee meetings were held. The attendance records of individual directors at the committee meetings is set out in the table on page 31.

The following is a summary of the work performed by the Remuneration Committee in 2016:

A. reviewed the remuneration of certain executive directors for 2016 and approved their 2015 incentive bonus and performance incentives in 2016;

B. reviewed the fees and remuneration of the non-executive directors for 2016 and made recommendations to the Board for such to be approved, if thought fit; and

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

Details of the remuneration of each director are set out in the consolidated financial statements on pages 100 to 102.

NOMINATION COMMITTEE

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

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

NOMINATION COMMITTEE – CONTINUED

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

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

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

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

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

In the year ended December 31, 2016, one Nomination Committee meeting was held. The attendance records of individual directors at the committee meeting is set out in the table on page 31.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE – CONTINUED

The following is a summary of the work performed by the Nomination Committee in 2016:

A. reviewed and assessed the independence of all independent non-executive directors and advised the Board as to which of the directors were due to retire pursuant to the applicable laws of Bermuda, the Bye-laws of the Company and the CG Code and recommended that they be subject to retirement and re-election at the 2016 annual general meeting;

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

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

At its meeting on January 16, 2017, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and formed the view that the Board has a balance of skills, knowledge and experience which was appropriate for the business of the Company for the year ended December 31, 2016, and had made recommendation to the Board for approval of the same. In performing its duties, the Nomination Committee can seek advice from outside legal counsels or other independent professionals at the Company's expenses if necessary.

AUDIT COMMITTEE

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

AUDIT COMMITTEE – CONTINUED

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

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

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

Current members of the Audit Committee are:

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

2. Dr Allan Zeman

3. Chiang Yun

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

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditor and external auditor and reviews their reports. In the year ended December 31, 2016, two Audit Committee meetings were held. The attendance records of individual directors at the committee meetings is set out in the table on page 31.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE – CONTINUED

The following is a summary of the work performed by the Audit Committee in 2016:

A. reviewed the financial statements of the Company for the year ended December 31, 2015 and the related annual results announcement and auditor's report; and made recommendations to the Board that the same be approved;

B. reviewed the report of the external auditor and made recommendations to the Board for their re-appointment at the 2016 annual general meeting;

C. reviewed the financial statements of the Company for the six months ended June 30, 2016 and the related interim results announcement and made recommendations to the Board that the same be approved;

D. reviewed external auditor's reports to the Audit Committee for the year ended December 31, 2015 and the six months ended June 30, 2016 and their terms of engagement, communications plan and audit plan for the Group for the financial year ended December 31, 2016;

E. reviewed various internal audit reports;

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

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

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

I. reviewed the corporate governance report of the Company for the year ended December 31, 2015;

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

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

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

In addition, the Audit Committee reviewed the consolidated financial statements for the year ended December 31, 2016 and the related annual results announcement and auditor's report and the corporate governance report, and made recommendation to the Board that the same be approved.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

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

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

EXTERNAL AUDITOR

The external auditor of the Group is PricewaterhouseCoopers. During the year ended December 31, 2016, the total fees in respect of audit and non-audit services provided by PricewaterhouseCoopers (which for this purpose included any entity that is under the common control, ownership or management of the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm, either nationally or internationally) amounted to approximately HK$4.9 million.

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

Nature of service	Fees paid (HK$ million)
Non-statutory review services	0.5

CORPORATE GOVERNANCE REPORT

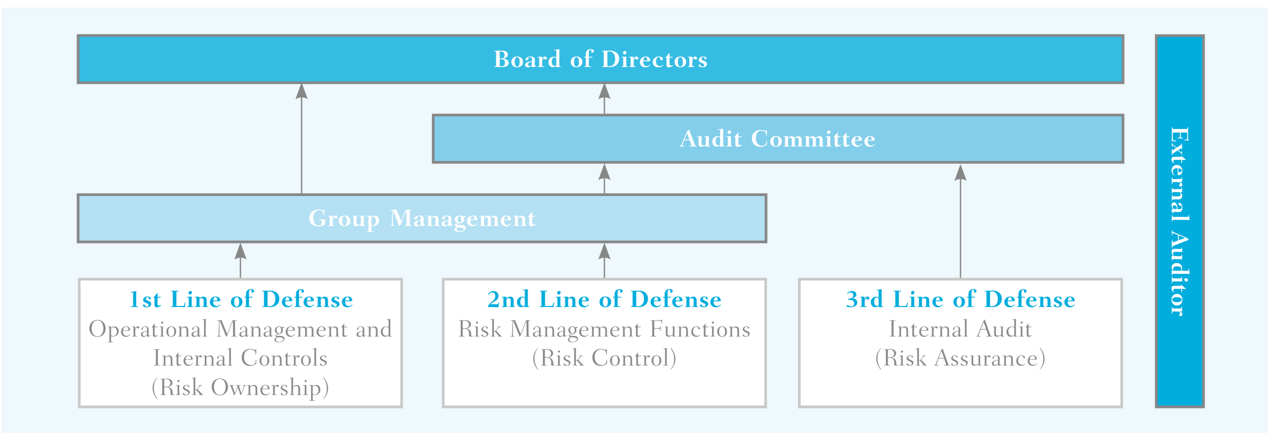
RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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



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

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

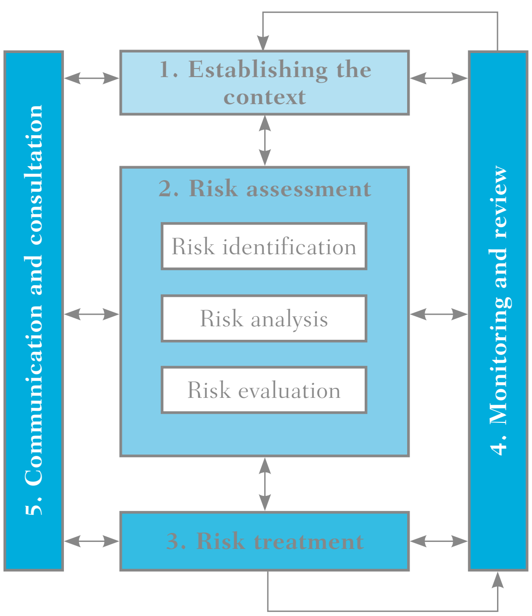
Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material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

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

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

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

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



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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

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

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

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

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

During 2016, the Risk Management and Compliance department has worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management and Compliance department has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

During 2016, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions of the Group were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

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

ATTENDANCE AT MEETINGS

All directors actively participate in the Company's business. The attendance records of all directors for the Board meetings, meetings of the Board committees and annual general meeting during the year ended December 31, 2016 are set out below:

	Meetings attended/held in 2016				
Directors	**Board Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Remuneration Committee Meeting**	**Annual General Meeting**
Executive directors					
Li Tzar Kai, Richard	3/4	N/A	1/1	2/2	0/1
Lee Chi Hong, Robert	4/4	N/A	N/A	N/A	1/1
James Chan	4/4	N/A	N/A	N/A	1/1
Independent non-executive directors					
Prof Wong Yue Chim, Richard	4/4	1/2	1/1	2/2	1/1
Dr Allan Zeman	4/4	2/2	1/1	N/A	1/1
Chiang Yun	4/4	2/2	1/1	2/2	1/1

CORPORATE GOVERNANCE REPORT

TRAINING AND SUPPORT FOR DIRECTORS

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

COMPANY SECRETARY

During the year ended December 31, 2016, the company secretary of the Company is Mr Tsang Sai Chung who had taken no less than 15 hours of relevant professional training.

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

The Company encourages two-way communication with both institutional and private investors. Information on the activities of the Company is provided in the interim reports and annual reports as well as on the websites of the Company and the HKEx. There are regular dialogues between institutional investors and the Company. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and they are dealt with in an informative and timely manner. Relevant contact information is provided on page 152 of this annual report.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS – CONTINUED

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

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

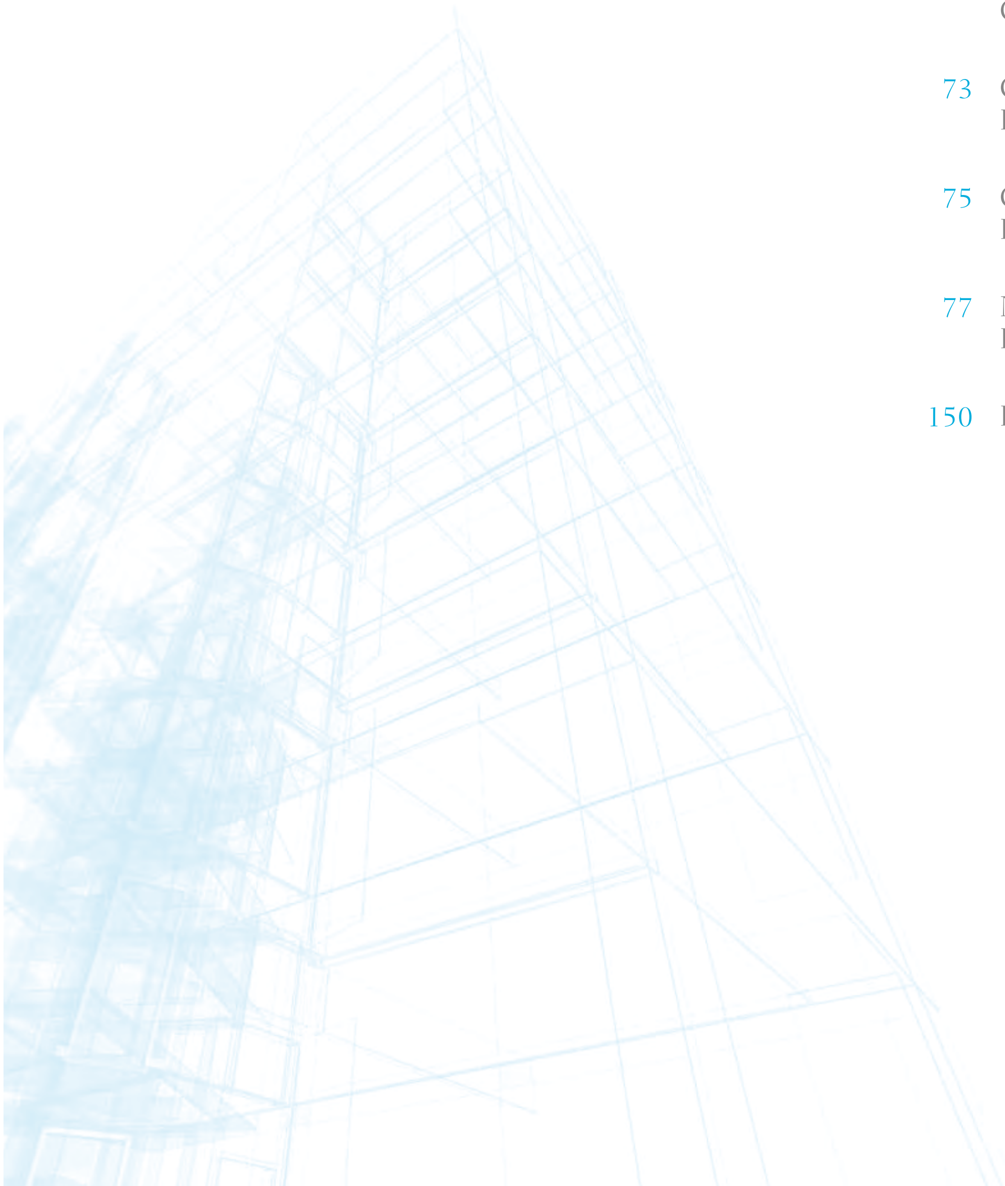
If a shareholder wishes to nominate a person to stand for election as a director, the following documents must be validly served on the company secretary, namely (i) notice of intention to propose a resolution to elect a person as a director ("Nominated Candidate") at the general meeting; (ii) notice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

On behalf of the Board

TSANG Sai Chung
Company Secretary

Hong Kong, January 16, 2017

FINANCIAL INFORMATION



REPORT OF THE DIRECTORS

The board of directors of Pacific Century Premium Developments Limited (“Company”) (“Board”) presented its annual report together with the audited consolidated financial statements of the Company and its subsidiaries (“Group”) for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

A review of the businesses of the Group during the year, a discussion on the Group’s future business development and an analysis of the Group’s performance during the year using financial key performance indicators are provided in the Statement from the Chairman on pages 4 to 5, the Statement from the Chief Executive Officer on pages 6 to 7 and the Management’s Discussion and Analysis on pages 10 to 13 of this annual report and notes 35 and 36 to the consolidated financial statements.

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

Principal Risks and Uncertainties

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

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

BUSINESS REVIEW – CONTINUED

Principal Risks and Uncertainties – continued

Market Risk

The Group has material investment in commercial property under construction in Indonesia and is largely subject to the risks associated to Indonesia's competition and uncertainties of the economy.

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

People Risk

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

Regulatory and Operational Compliance Risk

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

Geopolitical Risk

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

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

For details of the Group's financial management policies and strategies in managing its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, please refer to note 35 to the consolidated financial statements.

REPORT OF THE DIRECTORS

BUSINESS REVIEW – CONTINUED

Principal Risks and Uncertainties – continued

Construction Risk

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

Environmental Policies and Performances

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

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

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

BUSINESS REVIEW – CONTINUED

Environmental Policies and Performances – continued

Our Environment

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

The effectiveness is sustained by the accreditations of Water Supplies Department's Quality Water Supply Scheme For Buildings – Fresh Water (Plus)'s BASIC PLAN (Gold Certificate) and Flushing Water Plumbing Quality Maintenance Recognition Scheme; Environmental Protection Department's Indoor Air Quality Certificate (Excellent Class); Environmental Campaign Committee's Hong Kong Green Organisation Certification – "Excellence Level" Wastewi$e Certificate, "Excellence Level" IAQwi$e Certificate and Green Organisation Label; Hong Kong Awards for Environmental Excellence "Class of Good" Energywi$e Label; Better World Company Logo by Junior Chamber International – Hong Kong; Social Caring Awards for Green Excellence, Hong Kong Green Mark – Wood Recycling & Tree Conservation Scheme 2016, and Glass Bottle Recycling Programme.

Apart from the recognitions for its efforts in promoting sustainable community, throughout the past years it has put in place many green initiatives in areas of waste recycling, and reduction in emission and waste by signing of environmental protection charters such as Energy Saving Charter on "No ILB" by Electrical and Mechanical Services Department and Environmental Bureau; Food Wise Charter by Food Wise Hong Kong; Use Less, Waste Less in My Hands Charter by Environmental Protection Department; Carbon Smart by Hong Kong Productivity Council, Business Environment Council, Federation of Hong Kong Industries and Hong Kong General Chamber of Commerce ("HKGCC"); Certificate of Appreciation for Rechargeable Battery Recycling Programme by Environmental Protection Department; Food Wise Eateries by Environmental Protection Department; Energy Saving Charter 2016 on Indoor Temperature by Environmental Bureau and Electrical and Mechanical Services Department and Charter on External Lighting by Environmental Bureau.

REPORT OF THE DIRECTORS

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders

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

Relationships with employees

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

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

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders – continued

Relationships with customers

Save as disclosed in the Management's Discussion and Analysis, one of the major sources of revenue for the Group is ownership and operation of a ski and golf resort, property management and holiday letting business in Niseko, Hokkaido of Japan. The Group offers a complete all-season holiday solution for discerning guests, offering a complete suite of resort services including ski-lifting, snow-sports and guiding schools, specialty retail, equipment rental, restaurant operations, golf and white water rafting activities. Renowned for its consistent deep powder snow, Niseko has become a magnet for international ski tourists from across the globe, with international tourists now making up some 75 per cent of winter visitation to the area. Embracing the mix of different cultures and languages, the business division works closely and collaboratively with government agencies at all levels and continues to maintain important strategic working relationships with all local Japanese companies. The Group aims to offer a safe, diverse, interesting and culturally sensitive experience for all levels of customers, whether families, children, elders or sports enthusiasts. Whether in winter season or in summer season, the Group is committed to providing Niseko's finest holiday experience, one that delivers a standard of year-round service and quality to guests which surpasses that of all other service providers in Niseko, attracts new customers through genuine referral just as much as marketing, and compels people to experience the Group's services and activities not just once, but time and time again.

For the property management and facilities management services in Hong Kong, the property management division has developed various channels to gather its customers' views in order to improve its services, such as dedicated Bel-Air hotline, mobile apps, electronic mail and website (www.bel-air-hk.com). Residents are also encouraged to visit the concierge counters at different tower lobbies, service centres or club houses to express their valuable opinions and suggestions.

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

REPORT OF THE DIRECTORS

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders – continued

Relationships with suppliers and contractors

The Group is committed to delivering prestigious high quality sustainable development projects. It is imperative that suppliers and contractors share the same mission and vision. The Group adopts a partnership approach to solicit the commitments of the stakeholders to create the all win situation. A procedure has also been established to ensure open, fair and square procurement process. Procedures are also in place to monitor and audit the deliverables with adequate feedback channel to improve the communications and relationship with suppliers and contractors.

Relationships with community

The Group has been sponsoring and co-organising charitable events in Hong Kong to heighten public awareness of healthy living by running or walking while raising funds for empowering people with disability in Hong Kong and Mainland China. The Group has also participated the "Business-School Partnership Programme" organized by HKGCC. Students and teachers from Heep Yunn School were invited to join an executive talk on the topic of "Introduction of Green Building" on November 30, 2016.

The property management division has been awarded the Caring Company Logo for 9th consecutive years in recognition of its efforts to promote building a cohesive society through strategic partnership with non-profitable organisations and social enterprises. During the reporting period, its volunteer team participated and co-organised a number of community service events such as Mooncake Donation Program by Food Grace, Donate Your Old Shoes by STEP30 x HK, Pok Leung Kuk's Item Donation for Charity Sale, Small Household Appliances Recycling by the WEEE GO GREEN project of St. James' Settlement, Christmas Charity Donation (Books & Toys) for Tung Wah Group of Hospitals and Christmas Volunteer Visit at New Life Psychiatric Rehabilitation Association etc.

BUSINESS REVIEW – CONTINUED

Compliance with Laws and Regulations

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

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

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

Other Corporate and Administrative Requirements

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

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2016 are set out in the accompanying consolidated statement of comprehensive income on pages 70 to 71.

For the year ended December 31, 2016, the Board did not declare any interim dividend to shareholders nor any interim distribution to bonus convertible noteholders (2015: Nil). The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2016 (2015: Nil).

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 150.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in note 21 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties under/held for development and held for investment purposes are set out on page 151.

BORROWINGS

Particulars of the borrowings of the Group are set out in note 23 to the consolidated financial statements.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

As at December 31, 2016, the Company's reserves available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK$4,442 million (2015: HK$4,448 million).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2016, the aggregate amount of revenue from sales of goods or rendering of services attributable to the Group's five largest customers represented approximately 33.13 per cent of the Group's total revenue, while the revenue from sales of goods or rendering of services attributable to the largest customer for the Group accounted for approximately 15.32 per cent of the Group's total revenue.

For the year ended December 31, 2016, the aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 69.62 per cent of the Group's total purchases, while the purchases attributable to the largest supplier for the Group accounted for approximately 64.53 per cent of the Group's total purchases.

As at December 31, 2016, (i) Reach Networks Hong Kong Limited ("Reach Networks"), which is one of the Group's five largest customers, is a wholly-owned subsidiary of Reach Ltd. which is an associate of PCCW; and (ii) PCCW-HKT Telephone Limited, which is also one of the Group's five largest customers, is wholly-owned by PCCW. PCCW is the ultimate holding company of the Company; and Li Tzar Kai, Richard and Lee Chi Hong, Robert (the Company's executive directors) are also executive directors of PCCW and their interests in PCCW are disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures" in this report. Save as disclosed above, for the year ended December 31, 2016, none of the directors of the Company, their close associates nor any shareholder which to the knowledge of the directors own more than 5 per cent of the issued share capital of the Company had any beneficial interest in the Group's major customers and suppliers. Further details on the agreements between Reach Networks and PCPD Facilities Management Limited, a wholly-owned subsidiary of the Company, can be found in the announcement of the Company dated December 18, 2014 and on page 58 of this report.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

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

Independent Non-Executive Directors

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

In accordance with bye-law 87 of the Bye-laws of the Company, Li Tzar Kai, Richard and James Chan will retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS

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

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

As at December 31, 2016, the directors and the chief executives of the Company and their respective close associates had the following interests and short positions in the shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept under Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules:

1. The Company

As at December 31, 2016, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in the shares or underlying shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

2. Associated Corporations of the Company

A. Interests in PCCW

The table below sets out the aggregate long positions of the directors and the chief executives of the Company in the shares of PCCW, the ultimate holding company of the Company, as at December 31, 2016:

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

REPORT OF THE DIRECTORS

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

2. Associated Corporations of the Company – Continued

A. Interests in PCCW – Continued

Notes:

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

(b) These interests represented:

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

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

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

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

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

2. Associated Corporations of the Company – Continued

B. Interests in HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the share stapled units ("Share Stapled Units") jointly issued by HKT Trust and HKT Limited, an associated corporation of the Company, held by the directors and the chief executives of the Company as at December 31, 2016:

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

Each Share Stapled Unit confers an interest in:

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

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

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

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

REPORT OF THE DIRECTORS

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

2. Associated Corporations of the Company – Continued

B. Interests in HKT Trust and HKT Limited – Continued

Notes:

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

(b) These interests represented:

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

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

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

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

Save as disclosed in the foregoing, as at December 31, 2016, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

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

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

REPORT OF THE DIRECTORS

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

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

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

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

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

No share options have been granted under the 2015 Scheme since its adoption and up to December 31, 2016.

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

EQUITY – LINKED AGREEMENTS

Share Option Scheme

Details of the share option scheme of the Company are set out in the section headed "Share Options and Directors' Rights to Acquire Shares or Debentures" above and note 27(a) to the consolidated financial statements.

Bonus Convertible Notes

As a result of the issue of bonus convertible notes in the aggregate amount of HK$592,572,154.40 convertible into a total of 1,185,144,308 shares of the Company at a conversion price of HK$0.50 per share (after adjustment made as a consequence of a share consolidation of the Company which became effective on June 25, 2012) in 2012, up to December 31, 2016, bonus convertible notes in the aggregate amount of HK$18,800.00 (December 31, 2015: HK$18,800.00) were converted into 37,600 shares (December 31, 2015: 37,600 shares) of the Company at the conversion price of HK$0.50 per share. As at December 31, 2016, the Company's outstanding bonus convertible notes were in the aggregate amount of HK$592,553,354.40 convertible into a total of 1,185,106,708 shares of the Company at the conversion price of HK$0.50 per share. The bonus convertible notes can be converted into shares of the Company at any time provided that the Company's minimum public float requirements under the Listing Rules could be complied with.

Supporting Agreement and Investor Agreements

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

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

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

REPORT OF THE DIRECTORS

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

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

As at December 31, 2016, the following person (other than directors or the chief executives of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

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

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

As at December 31, 2016, the Company had not been notified of any person who had short positions in the shares or underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at December 31, 2016, the Company had not been notified of any other person who had interests or short positions in the shares and underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2016, the directors of the Company had the following interests in businesses which competed or were likely to compete, either directly or indirectly, with the Group's businesses:

Name of director	Names of companies	Nature of business	Nature of interests
Li Tzar Kai, Richard	CK Hutchison Holdings Limited ("CK Hutchison") and its subsidiaries	Ports and related services, retail, infrastructure, energy and telecommunications	*(Note)*
	Cheung Kong Property Holdings Limited ("CK Property") and its subsidiaries	Property development and investment, hotel and serviced suite operation and property and project management	*(Note)*

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

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

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS – CONTINUED

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

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

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

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

PERMITTED INDEMNITY

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

DONATIONS

During the year, the Group made charitable and other donations in the aggregate amount of approximately HK$1.56 million (2015: 1.1 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2016, the Company repurchased a total of its 199,000 shares on the Stock Exchange for an aggregate consideration of HK$575,170 (excluding expenses) when they were trading at a discount in order to enhance shareholder value. All the repurchased shares were cancelled during the year. Details of the shares repurchased are as follows:

		Price paid per share		
Period of repurchase	**Number of shares repurchased**	**Highest**	**Lowest**	**Aggregate Consideration**
		HK$	*HK$*	*HK$*
April 2016	199,000	2.92	2.87	575,170

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2016.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, although no restrictions against such rights exist under the laws of Bermuda.

CONNECTED TRANSACTIONS

Since the publication of the Company's annual report for the year ended December 31, 2015, the Group had entered into (or continued to be a party to) certain transactions which are "continuing connected transactions" as defined in the Listing Rules and which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company has complied with such disclosure requirements. Details of such transactions with subsidiaries and/or associates of PCCW, HKT and a director of the Company during the year are as follows:

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions

1. As disclosed in the announcement of the Company dated December 18, 2014, PCPD Facilities Management Limited ("PCPD FM"), a wholly-owned subsidiary of the Company, had entered into a facilities management services agreement and a lease and tenant management services agreement ("Agreements") with Reach Networks, a wholly-owned subsidiary of Reach Ltd., which is an associate of PCCW, on that day in relation to the facilities management services and lease and tenant management services it provides to Reach Networks from January 1, 2015 onwards for a term of two years until December 31, 2016 at the fees calculated in accordance with the terms of the Agreements, subject to the annual cap of HK$33 million. The aggregate fees charged by PCPD FM under the Agreements for the year ended December 31, 2016 was approximately HK$32.4 million for facilities management services and lease and tenant management services.

   In the announcement dated December 23, 2016, the Company announced that PCPD FM and Reach Networks entered into a new set of the facilities management services agreement and the lease and tenant management services agreement ("New Agreements") on that day in order to continue the provision of the facilities management services and lease and tenant management services to Reach Networks from January 1, 2017 onwards for a term of two years until December 31, 2018 through a tender executed by Reach Networks at the fees calculated in accordance with the terms of the New Agreements, subject to the annual caps of HK$8 million for 2017 and 2018.

2. As disclosed in the announcement of the Company dated December 9, 2013, PCPD Operations Limited ("PCPDOL"), an indirect wholly-owned subsidiary of the Company, had on that day entered into a master agreement with each of the following parties for procurement of goods and services: (i) PCCW Solutions Limited, an indirect wholly-owned subsidiary of PCCW (PCCW together with its subsidiaries, "PCCW Group"; PCCW Group excluding the Group and the HKT Group (as defined below), "Parent Group") (the agreement with this entity shall be referred to as the "Parent Group 2013 Master Agreement"); and (ii) Hong Kong Telecommunications (HKT) Limited ("HKTL"), an indirect wholly-owned subsidiary of HKT Limited ("HKT", together with its subsidiaries, "HKT Group") (the agreement with this entity shall be referred to as the "HKT Group 2013 Master Agreement"). Such agreements set out the frameworks for the provision of certain goods and services by the Parent Group and the HKT Group respectively to the Group for a term of three years from January 1, 2014 to December 31, 2016 at prices to be determined in accordance with the terms stipulated therein and subject to the annual caps as disclosed in the announcement. The categories of goods and services as provided under (i) the Parent Group 2013 Master Agreement are (a) Information Technology Solutions and Services and (b) Corporate Services and Other Services, and those provided under (ii) the HKT Group 2013 Master Agreement are (a) Telecommunications and Related Equipment and Services and (b) Corporate Services and Other Services.

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

2. – continued

The aggregate contract amounts for transactions contemplated under the Parent Group 2013 Master Agreement for the financial year ended December 31, 2016 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2016	Annual Cap for the financial year ended December 31, 2016
	HK$'000	*HK$'000*
Information Technology Solutions and Services	1,589	3,400
Corporate Services and Other Services	532	1,000

The aggregate contract amounts for transactions contemplated under the HKT Group 2013 Master Agreement for the financial year ended December 31, 2016 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2016	Annual Cap for the financial year ended December 31, 2016
	HK$'000	*HK$'000*
Telecommunications and Related Equipment and Services	1,833	6,900
Corporate Services and Other Services	3,990	6,800

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

2. – continued

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

The annual caps for each category of transactions contemplated under the Parent Group 2016 Master Agreement are as follows:

	Annual Cap (HK$'000) Financial year ending 31 December		
	2017	**2018**	**2019**
Information Technology Solutions and Services (not including those fully exempt as consumer goods and services)	2,900	2,900	2.900
Corporate Services and Other Services	1,400	1,300	1,100

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

2. – continued

The annual caps for each category of transactions contemplated under the HKT Group 2016 Master Agreement are as follows:

	Annual Cap (HK$'000) Financial year ending 31 December		
	2017	**2018**	**2019**
Telecommunications and Related Equipment and Services (not including those fully exempt as consumer goods and services)	1,500	1,500	1,500
Corporate Services and Other Services	4,100	4,200	4,400

3. As disclosed in the announcement of the Company dated January 20, 2016, agreement is reached between PT Prima Bangun Investama ("PT PBI") (as landlord), a wholly-owned subsidiary of the Company, and PT FWD Life Indonesia ("PT FWD") (as tenant), an associate of Li Tzar Kai, Richard, a director of the Company, by way of acceptance by PT FWD of a binding letter of offer (with a *pro forma* form of lease agreement attached thereto) issued by PT PBI ("FWD Agreement") in relation to the key terms of the lease of whole 20th Floor and a portion of the Ground Floor ("Premises") and the signage right of the Premium Grade A office building which is under construction at Jl. Jenderal Sudirman Kavling. 52-53, SCBD Lot 10, Jakarta 12190, Indonesia ("Building"). The parties will sign the *pro forma* lease agreement for the Building when access to the Premises is ready to be delivered to PT FWD. The term of the lease is three years from the lease commencement date which is tentatively on or after January 1, 2018, subject to final confirmation from PT PBI, at the estimated monthly rental of IDR1,261,252,867 (approximately HK$709,725.32) and estimated charges (including monthly service charges of IDR90,000 per square meter (approximately HK$50.64) to IDR150,000 per square meter (approximately HK$84.41), annual parking charges of IDR226,800,000 (approximately HK$127,623.66) and annual signage charges of IDR1,083,333,333 (approximately HK$609,607.41)) in accordance with the terms of the FWD Agreement, subject to an annual cap of IDR23,102,300,000 (approximately HK$13,000,000) for each of the three financial years ending December 31, 2020 as disclosed in the announcement.

As at December 31, 2016, PCCW, a substantial shareholder of the Company, held approximately 70.83% and approximately 63.07% equity interest in the Company and HKT respectively.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

The independent non-executive directors of the Company had reviewed and confirmed that the continuing connected transactions for the financial year ended December 31, 2016 have been entered into:

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

B. on normal commercial terms or better; and

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

The auditor of the Company was engaged to report on the continuing connected transactions entered into by the Group for the year ended December 31, 2016 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in note 34 to the consolidated financial statements. Those related party transactions which constituted connected transactions or continuing connected transactions under the Listing Rules had complied with the applicable requirements under Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

AUDITOR

The consolidated financial statements for the financial year ended December 31, 2016 were audited by PricewaterhouseCoopers who will retire at the conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at that meeting.

On behalf of the Board

TSANG Sai Chung
Company Secretary

Hong Kong, January 16, 2017

INDEPENDENT AUDITOR'S REPORT

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

OPINION

What we have audited

The consolidated financial statements of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 149, which comprise:

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

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 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.

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.

Key audit matters identified in our audit are summarised as follows:

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment property under development in Indonesia *Refer to note 15 to the consolidated financial statements.* The Group's investment properties were carried at HK$3,266 million as at 31 December 2016 out of which HK$3,214 million related to the investment property under development in Indonesia. Management has performed an internal valuation to assess the fair value of the investment property under development in Indonesia with reference to estimated sales prices of similar completed properties allowing for the outstanding development costs, primarily construction costs to complete. The valuation was inherently subjective due to the significant estimates used which included the estimated sales price of similar completed properties and the outstanding construction costs to complete. Significant changes in these estimates could result in material changes to the valuation of the property.	Our procedures in relation to management's valuation of investment property under development in Indonesia included: • Challenging management on the valuation methodologies and key estimates used; • Involving our internal valuation specialists to compare the estimated sales prices of similar completed properties in the valuation process to our independently formed market expectations; • Validating the construction costs incurred to date to quantity surveyor reports and payment records; and • Validating the estimated total development costs to the main contractor agreement, quantity surveyor reports and other supporting documents to assess the appropriateness of the construction costs to complete. We found the valuation of the investment property to be supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Carrying values of properties under development and properties held for development

Refer to note 17 to the consolidated financial statements.

The carrying values of properties under development and properties held for development were HK$402 million and HK$544 million respectively as at 31 December 2016.

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

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

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

How our audit addressed the Key Audit Matter

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

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

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

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

We found the carrying values of the properties under development and properties held for development to be supported by the available evidence.

Other Information

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

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

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

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

- 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 Sean William Tuckfield.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 January 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

HK$ million	Note(s)	2016	2015
Revenue	4, 5	**174**	165
Cost of sales		**(56)**	(54)
Gross profit		**118**	111
General and administrative expenses		**(418)**	(389)
Other income		—	1
Other losses, net	6	**(57)**	(3)
Operating loss		**(357)**	(280)
Interest income		**11**	12
Loss before taxation	8	**(346)**	(268)
Income tax	11	**(18)**	(5)
Loss attributable to equity holders of the Company from continuing operations		**(364)**	(273)
Profit attributable to equity holders of the Company from discontinued operation due to disposal of subsidiaries in 2014	12	—	192
Loss attributable to equity holders of the Company		**(364)**	(81)

HK$ million	Note(s)	2016	2015
Other comprehensive income/(loss):			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences:			
Exchange differences on translating foreign operations		**56**	(226)
Total comprehensive loss		**(308)**	(307)
Total comprehensive (loss)/income arises from:			
Continuing operations		**(308)**	(499)
Discontinued operation due to disposal of subsidiaries in 2014		**—**	192
		(308)	(307)
(Loss)/earnings per share from continuing operations and discontinued operation due to disposal of subsidiaries in 2014			
(expressed in Hong Kong cents per share)			
Basic and diluted (loss)/earnings per share	14		
Continuing operations		**(22.96) cents**	(17.21) cents
Discontinued operation due to disposal of subsidiaries in 2014		**— cents**	12.09 cents
		(22.96) cents	(5.12) cents

The notes on pages 77 to 149 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

HK$ million	Issued equity	Capital reserve	Currency translation reserve	2016 Convertible notes reserve	Other reserves	Retained earnings	Total
Balance at January 1, 2016	**2,848**	**(565)**	**(664)**	**592**	**10**	**3,034**	**5,255**
Total comprehensive income/(loss) for the year	**—**	**—**	**56**	**—**	**—**	**(364)**	**(308)**
Shares repurchased and cancelled (note 25(d))	**(1)**	**—**	**—**	**—**	**—**	**—**	**(1)**
Balance at December 31, 2016	**2,847**	**(565)**	**(608)**	**592**	**10**	**2,670**	**4,946**

HK$ million	Issued equity	Capital reserve	Currency translation reserve	2015 Convertible notes reserve	Other reserves	Retained earnings	Total
Balance at January 1, 2015	2,848	(565)	(438)	592	10	3,115	5,562
Total comprehensive loss for the year	—	—	(226)	—	—	(81)	(307)
Balance at December 31, 2015	2,848	(565)	(664)	592	10	3,034	5,255

The notes on pages 77 to 149 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

HK$ million	Note	2016	2015
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	15	**3,266**	2,136
Property, plant and equipment	16	**174**	160
Properties under development	17(a)	**402**	349
Properties held for development	17(b)	**544**	525
Goodwill	18	**3**	3
Other financial assets	19	**3**	2
Prepayments and other receivables		**273**	200
		4,665	3,375
Current assets			
Sales proceeds held in stakeholders' accounts	22(a)	**510**	513
Restricted cash	22(b)	**103**	96
Trade receivables, net	22(c)	**10**	7
Prepayments, deposits and other current assets		**158**	390
Amounts due from fellow subsidiaries	34(c)	**1**	1
Amount due from a related company	34(c)	**6**	3
Derivative financial instrument	20	**—**	60
Other financial assets	19	**4**	4
Short-term deposits		**3**	1
Cash and cash equivalents		**868**	1,815
		1,663	2,890

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

HK$ million	Note	2016	2015
Current liabilities			
Bank borrowings	23	**457**	—
Trade payables	22(d)	**23**	14
Accruals, other payables and deferred income	22(e)	**297**	437
Amounts due to fellow subsidiaries	34(c)	**—**	1
Amount payable to the HKSAR Government under the Cyberport Project Agreement	24	**321**	322
Current income tax liabilities		**4**	3
		1,102	777
Net current assets		**561**	2,113
Total assets less current liabilities		**5,226**	5,488
Non-current liabilities			
Other payables		**208**	189
Deferred income		**50**	25
Deferred income tax liabilities	29(a)	**22**	19
		280	233
Net assets		**4,946**	5,255
CAPITAL AND RESERVES			
Issued equity	25	**2,847**	2,848
Reserves		**2,099**	2,407
		4,946	5,255

Lee Chi Hong, Robert
Director

James Chan
Director

The notes on pages 77 to 149 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

HK$ million	Note	2016	2015
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	30	**(411)**	435
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(27)**	(46)
Payment for investment properties		**(966)**	(516)
Distribution received from financial instrument liquidation		**3**	—
Purchase of derivative financial instrument		**—**	(62)
Increase in short-term deposits with maturity more than three months		**(2)**	(1)
Net cash outflow arising from the disposal of subsidiaries in 2014	12	**—**	(452)
NET CASH USED IN INVESTING ACTIVITIES		**(992)**	(1,077)
FINANCING ACTIVITIES			
Proceeds from bank borrowing		**465**	—
Other borrowing costs paid		**(15)**	(6)
Repurchase of shares		**(1)**	—
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**449**	(6)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

HK$ million	2016	2015
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(954)**	(648)
Exchange difference	**7**	(3)
CASH AND CASH EQUIVALENTS		
Balance at January 1,	**1,815**	2,466
Balance at December 31,	**868**	1,815
Analysis of cash and cash equivalents		
Cash and bank balances	**871**	1,816
Less: Short-term deposits	**(3)**	(1)
Cash and cash equivalents at December 31,	**868**	1,815

The notes on pages 77 to 149 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

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

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

At December 31, 2016, the directors consider the immediate holding company of the Group to be Asian Motion Limited, a company incorporated in British Virgin Islands, and the ultimate holding company of the Group to be PCCW Limited ("PCCW"), a company incorporated in Hong Kong. PCCW produces financial statements available for public use.

These consolidated financial statements set out on pages 70 to 149 were approved by the board of directors (the "Board") on January 16, 2017.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2016 comprise the Company and its subsidiaries.

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

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

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

Standards and amendments effective for the annual period beginning on January 1, 2016 adopted by the Group but have no significant impact on the Group's consolidated financial statements

HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 (Amendment)	Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation
HKAS 27 (Amendment)	Separate Financial Statements – Equity Method in Separate Financial Statements
HKAS 38 (Amendment)	Intangible Assets – Clarification of Acceptable Methods of Amortisation
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Joint Arrangements – Accounting for Acquisitions of Interest in Joint Operation
Annual Improvements to HKFRS 2012-2014 Cycle	

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

The following new standards and amendments have been issued but are not yet effective for the year ended December 31, 2016 and which the Group has not early adopted:

HKAS 7 (Amendment)	Disclosure Initiative – Statement of Cash Flows [1]
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses [1]
HKFRS 9	Financial Instruments [2]
HKFRS 15	Revenue from Contracts with Customers [2]
HKFRS 15 (Amendment)	Clarifications to HKFRS 15 Revenue from Contracts with Customers [2]
HKFRS 16	Leases [3]

Note:

1 Effective for annual periods beginning on or after January 1, 2017
2 Effective for annual periods beginning on or after January 1, 2018
3 Effective for annual periods beginning on or after January 1, 2019

Apart from the above, a number of annual improvements and minor amendments to HKFRS have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2016 and have not been adopted in these consolidated financial statements.

The Group has been evaluating the impact of these new or revised standards and amendments but is not yet in a position to state whether all these new or revised standards and amendments would have a significant impact on the Group's results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

c. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

d. Revenue recognition

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

(i) Rental income from operating leases

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

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

(ii) Service income

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

(iii) Interest income

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

e. Operating leases

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

e. Operating leases – Continued

(ii) Operating lease charges

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

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

f. Freehold land, property, plant and equipment and depreciation

Freehold land is stated at cost less impairment losses (note 2(h)) as the land has an indefinite useful life and is not subject to depreciation.

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

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

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

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

g. Investment properties

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

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

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

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

h. Impairment of investment in a subsidiary and non-financial assets

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

- property, plant and equipment;
- goodwill; and
- investment in a subsidiary (at Company level).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

h. Impairment of investment in a subsidiary and non-financial assets – Continued

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

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Reversals of impairment losses

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

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

i. Properties under/held for development

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

j. Goodwill

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

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

k. Trade and other receivables

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

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

l. Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

m. Financial assets at fair value through profit or loss

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

n. Derivative financial instruments

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

o. Financial guarantees issued

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

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

p. Trade and other payables

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

q. Provisions and contingent liabilities

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

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

r. Borrowings

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

s. Borrowing costs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

t. Discontinued operation

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

When an operation is classified as discontinued operation, a single amount is presented in the statement of comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

u. Income tax

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

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

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

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(g), the amount of deferred income tax recognised is measured using the tax rates that would be applied on sale of those assets at their carrying value in the statement of financial position unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred income tax assets and liabilities are not discounted.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

u. Income tax – Continued

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

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

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

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

v. Employee benefits

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

v. Employee benefits – Continued

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

w. Share-based payment transactions with cash alternatives

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

x. Foreign currency translation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

y. Segment reporting

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

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

z. Dividend distribution

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected market yield, market price, market rent and the outstanding development costs in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different market yields, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated statement of comprehensive income. As at December 31, 2016, the fair value of the investment properties was HK$3,266 million.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

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

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

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

(iii) Taxation

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred income tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits carried forward in the future, adjustments to the recorded amount of net deferred income tax assets and income tax would be made. As at December 31, 2016, no deferred income tax assets were netted off against the deferred income tax liabilities recognised in the consolidated statement of financial position (note 29(a)).

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

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– goodwill;
– properties under/held for development; and
– investment in a subsidiary (at Company level).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

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

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

(v) Fair value of derivative financial instrument

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. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group adopts dealer quoted price to value the derivative financial instrument, taking into account of spot and forward exchange rates and implied volatility and other assumptions.

4. REVENUE

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

HK$ million	2016	2015
All-season recreational activities in Japan	**92**	78
Property and facilities management in Hong Kong	**47**	51
Property management in Japan	**20**	16
Other businesses	**15**	20
	174	165

5. SEGMENT INFORMATION

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

a. Business segments

	Revenue						Results		Other information	
	Revenue from external customers		Inter-segment revenue		Reportable segment revenue		Segment results before taxation		Additions to non-current segment assets	
HK$ million	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
All-season recreational activities in Japan	**92**	78	**—**	—	**92**	78	**—**	2	**4**	37
Property investment in Indonesia	**—**	—	**—**	—	**—**	—	**(16)**	(19)	**1,126**	344
Property development in Thailand	**—**	—	**—**	—	**—**	—	**(13)**	(16)	**13**	8
Property development in Japan	**—**	—	**—**	—	**—**	—	**(16)**	(8)	**43**	4
Property and facilities management in Hong Kong	**47**	51	**—**	—	**47**	51	**8**	5	**—**	—
Property development in Hong Kong	**—**	—	**—**	—	**—**	—	**(8)**	4	**—**	—
Property management in Japan (note i)	**20**	16	**—**	—	**20**	16	**3**	2	**—**	—
Other businesses (note ii)	**15**	20	**2**	2	**17**	22	**2**	2	**—**	1
Elimination	**—**	—	**(2)**	(2)	**(2)**	(2)	**—**	—	**—**	—
Total of reported segments	**174**	165	**—**	—	**174**	165	**(40)**	(28)	**1,186**	394
Unallocated	**—**	—	**—**	—	**—**	—	**(306)**	(240)	**9**	4
Consolidated	**174**	165	**—**	—	**174**	165	**(346)**	(268)	**1,195**	398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

5. SEGMENT INFORMATION – CONTINUED

a. Business segments – Continued

	Assets		Liabilities	
HK$ million	**2016**	2015	**2016**	2015
All-season recreational activities in Japan	**132**	119	**14**	18
Property investment in Indonesia	**3,686**	2,713	**802**	422
Property development in Thailand	**558**	530	**9**	9
Property development in Japan	**498**	409	**25**	9
Property and facilities management in Hong Kong	**27**	19	**5**	10
Property development in Hong Kong	**606**	609	**429**	433
Property management in Japan (note i)	**24**	38	**14**	29
Other businesses (note ii)	**73**	73	**11**	12
Total of reported segments	**5,604**	4,510	**1,309**	942
Unallocated	**724**	1,755	**73**	68
Consolidated	**6,328**	6,265	**1,382**	1,010

(i) The segment for property management in Japan has met the quantitative thresholds under HKFRS 8 for reportable segments during the year ended December 31, 2016, therefore it is separately disclosed and its comparative figures have been restated. It was included in other businesses for the year ended December 31, 2015.

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

5. SEGMENT INFORMATION – CONTINUED

b. Geographical information

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

	Revenue from external customers		Specified non-current assets	
HK$ million	**2016**	2015	**2016**	2015
Japan	**112**	98	**558**	492
Hong Kong (place of domicile)	**49**	53	**69**	61
Mainland China	**13**	14	**5**	10
Thailand	**—**	—	**544**	525
Indonesia	**—**	—	**3,486**	2,285
	174	165	**4,662**	3,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

6. OTHER LOSSES, NET

HK$ million	2016	2015
Fair value loss on the derivative financial instrument (note 20)	60	2
Fair value loss on the financial assets at fair value through profit or loss	—	1
Gain on an impaired financial instrument upon liquidation	(3)	—
	57	3

7. FINANCE COSTS

HK$ million	2016	2015
Interest expenses:		
– Bank borrowings	16	—
– Other finance costs	3	1
	19	1
Less: Interest capitalised into investment properties	(19)	(1)
	—	—

The borrowing costs have been capitalised at the weighted average rate of the Group's borrowings at 4.68 per cent per annum in 2016 (2015: 2.56 per cent).

8. LOSS BEFORE TAXATION

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

HK$ million	2016	2015
Crediting:		
Gross rental income from investment property	**2**	2
Other rental income	**13**	14
Less: outgoings	**(5)**	(6)
Charging:		
Depreciation	**19**	16
Staff costs, included in:		
– cost of sales	**17**	18
– general and administrative expenses	**147**	128
Contributions to defined contribution retirement schemes, included in:		
– cost of sales	**—**	1
– general and administrative expenses	**6**	6
Shared-based compensation expenses	**5**	4
Auditor's remuneration		
– audit services	**4**	4
– non-audit services	**1**	1
Operating lease rental of land and buildings included in general and administrative expenses	**40**	33
Operating lease rental of equipment	**3**	3
Net foreign exchange loss	**3**	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' EMOLUMENTS

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

HK$'000	Directors' fee	Salaries	Bonuses (note i)	Allowances	Benefits in kind (note iii)	Employer's contribution to retirement scheme	Total
	2016						
Executive Directors							
Li Tzar Kai, Richard	—	—	—	—	—	—	—
Lee Chi Hong, Robert (note iv)	—	6,949	4,500	2,978	94	1,042	15,563
James Chan	—	4,393	4,000	1,883	14	659	10,949
Independent Non-executive Directors							
Chiang Yun	228	—	—	—	—	—	228
Prof Wong Yue Chim, Richard, SBS, JP	228	—	—	—	—	—	228
Dr. Allan Zeman, GBM, GBS, JP	228	—	—	—	—	—	228
	684	11,342	8,500	4,861	108	1,701	27,196

9. DIRECTORS' EMOLUMENTS – CONTINUED

	2015						
HK$'000	Directors' fee	Salaries	Bonuses (note ii)	Allowances	Benefits in kind (note iii)	Employer's contribution to retirement scheme	Total
Executive Directors							
Li Tzar Kai, Richard	—	—	—	—	—	—	—
Lee Chi Hong, Robert (note iv)	—	6,874	5,564	2,946	94	1,031	16,509
James Chan	—	4,346	3,700	1,863	9	652	10,570
Gan Kim See, Wendy (note v)	—	243	—	32	13	105	393
Independent Non-executive Directors							
Cheung Kin Piu, Valiant (note vi)	80	—	—	—	—	—	80
Chiang Yun (note vii)	149	—	—	—	—	—	149
Prof Wong Yue Chim, Richard, SBS, JP	228	—	—	—	—	—	228
Dr. Allan Zeman, GBM, GBS, JP	228	—	—	—	—	—	228
	685	11,463	9,264	4,841	116	1,788	28,157

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

(ii) Refers to bonuses in respect of 2014 and 2015, paid in 2015.

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

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

(v) Resigned as executive director on March 18, 2015. The emoluments shown represent the emoluments received from the Group during the year of 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. DIRECTORS' EMOLUMENTS – CONTINUED

(vi) Resigned as independent non-executive director on May 6, 2015. The emoluments shown represent the emoluments received from the Group during the year of 2015.

(vii) Appointed as independent non-executive director on May 6, 2015. The emoluments shown represent the emoluments received from the Group during the period from the date of appointment to the end of the year of 2015.

(viii) No director offered to waive the basic salary and housing benefits during the year of 2016 (2015: HK$1.17 million).

(ix) No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services have been paid to or are receivable by the directors during the year ended December 31, 2016 (2015: Nil).

(x) No consideration was provided to or receivable by third parties for making available directors' services during the year ended December 31, 2016 (2015: Nil).

(xi) Save as disclosed in the Report of The Directors, there are no loans, quasi-loans and other dealings entered into by the Company or its subsidiary undertaking of the Company, in favour of directors, their controlled bodies corporate and connected entities during the year ended December 31, 2016 (2015: Nil).

(xii) Save as disclosed in the Report of The Directors, there are no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material, interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2016 (2015: Nil).

10. FIVE TOP-PAID EMPLOYEES

a. Of the five highest paid individuals in the Group, two (2015: two) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining three highest paid individuals (2015: three) are as follows:

HK$ million	**2016**	2015
Salaries and other short-term employee benefits	**15**	17
Bonuses (note i)	**11**	4
Retirement scheme contributions	**1**	1
Shared-based compensation expenses	**5**	4
	32	26

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

b. The emoluments of the remaining three individuals (2015: three) are within the emolument ranges as set out below:

	Number of individuals	
	2016	2015
HK$3,000,001 – HK$3,500,000	**1**	—
HK$5,500,001 – HK$6,000,000	**—**	1
HK$7,000,001 – HK$7,500,000	**—**	1
HK$13,000,001 – HK$13,500,000	**1**	1
HK$16,000,001 – HK$16,500,000	**1**	—
	3	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5 per cent (2015: 16.5 per cent) on the estimated assessable profits for the year.

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

HK$ million	2016	2015
Hong Kong profits tax		
– Provision for current year	**1**	—
Income tax outside Hong Kong		
– Provision for current year	**14**	12
Deferred income tax		
– Other origination and reversal of temporary differences	**3**	(7)
	18	5

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

HK$ million	2016	2015
Loss before taxation	**(346)**	(268)
Notional tax on loss before taxation, calculated at applicable tax rate of 16.5 per cent (2015: 16.5 per cent)	**(57)**	(44)
Effect of different tax rates of subsidiaries operating outside Hong Kong	**—**	1
Tax effect of income not subject to taxation	**(4)**	(3)
Tax effect of expenses not deductible for taxation purposes	**58**	47
Tax losses for which no deferred income tax asset was recognised	**6**	6
Utilisation of previously unrecognised tax losses	**—**	(2)
Others	**15**	—
Income tax	**18**	5

12. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES IN 2014

In 2015, a profit of HK$192 million from discontinued operation due to disposal of subsidiaries in 2014 arose from the adjustment in respect of the reversal of provision for tax and direct expenses. The net cash outflow of HK$452 million for the year ended December 31, 2015 represented the payment of tax and direct expenses in 2015 in relation to the disposal of subsidiaries in 2014. (For details, refer to note 12 to the 2015 Financial Statements.)

13. DIVIDEND

HK$ million	2016	2015
Final dividend	**—**	—

There was no final dividend paid for 2016 and 2015.

14. (LOSS)/EARNINGS PER SHARE

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

	2016	2015
(Loss)/Earnings (HK$ million)		
Loss from continuing operations	**(364)**	(273)
Earnings from discontinued operation due to disposal of subsidiaries in 2014	**—**	192
(Loss)/Earnings for the purpose of calculating the basic and diluted (loss)/earnings per share	**(364)**	(81)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic and diluted (loss)/earnings per share	**1,587,648,336**	1,587,775,022

Pursuant to the terms of the applicable deed poll, the bonus convertible notes confer upon the holders the same economic interests attached to the bonus shares. The aggregated amount of HK$592,553,354.40 (2015: HK$592,553,354.40) for the outstanding bonus convertible notes which could be converted into 1,185,106,708 (2015: 1,185,106,708) fully paid ordinary shares of HK$0.50 each is included in the weighted average number of ordinary shares for calculating the basic (loss)/earnings per share for the years ended December 31, 2016 and December 31, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INVESTMENT PROPERTIES

HK$ million	2016	2015
At January 1,	2,136	1,926
Additions	1,126	340
Exchange differences	4	(130)
At December 31,	3,266	2,136

(i) As at December 31, 2016, a sum of approximately HK$62 million (2015: HK$293 million) advanced to the contractors in relation to the construction of the investment property is included in "Prepayment, deposits and other current assets" in the consolidated statement of financial position.

(ii) As at December 31, 2016, value added tax receivables of approximately HK$236 million and HK$10 million (2015: HK$168 million and HK$2 million) in relation to the land acquisition and construction of the investment property are included in non-current assets "Prepayments and other receivables" and current assets "Prepayment, deposits and other current assets" in the consolidated statement of financial position respectively.

15. INVESTMENT PROPERTIES – CONTINUED

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

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

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

HK$ million	Fair value measurement as at December 31, 2015 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurement			
Investment properties			
– Indonesia	—	—	2,084
– Hong Kong	—	—	52

During the years ended December 31, 2016 and December 31, 2015, there were no transfers between different levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT PROPERTIES – CONTINUED

Information about level 3 fair value measurements

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

		As at December 31, 2015	
Investment properties	Valuation technique	Unobservable inputs	Rate
– Indonesia	Residual value approach	Price per net saleable area	US$5,730/sq.m. to US$6,280/sq.m.
		Construction cost	US$2,000/sq.m. to US$2,450/sq.m.
– Hong Kong	Income capitalisation approach	Market yield	4.5%
		Monthly gross market rent	HK$9.27/sq. ft.

15. INVESTMENT PROPERTIES – CONTINUED

On July 24, 2013, the Group completed the acquisition of a plot of land for the development of a Premium Grade A office building in Jakarta, Indonesia. The property is held for investment and construction is in progress. Management has estimated the fair value of the property (using residual value approach) with reference to estimated sales prices of similar completed properties allowing for the outstanding development costs, primarily construction costs to complete. Significant changes in the estimated sales prices or the construction costs to complete would result in a significant change in the fair value of the investment property. In addition, the exchange rate movement between Indonesian Rupiah and the US dollars could also affect the price and construction costs.

For the investment property in Hong Kong, the usage of this property is constrained by the Group's undertaking to the lessee. Management has performed the valuation of the fair value as at December 31, 2016 using the income capitalisation approach assuming such constraint and the current tenancy agreement will continue in its existing manner in the foreseeable future. The valuation takes into account expected market rental and market yield. A significant change in the rental or the market yield would result in a significant change in the fair value of the investment property.

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

HK$ million	**2016**	2015
Held in Indonesia		
On medium-term lease (10-50 years)	**3,214**	2,084
Held in Hong Kong		
On long lease (over 50 years)	**52**	52
	3,266	2,136

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16. PROPERTY, PLANT AND EQUIPMENT

HK$ million	Freehold land	Buildings and structures	Other plant and equipment	Construction in progress	Total
At January 1, 2015					
At cost	4	93	157	6	260
Less: Accumulated depreciation	—	(18)	(116)	—	(134)
Net book value	4	75	41	6	126
Net book value at January 1, 2015	4	75	41	6	126
Additions	34	1	11	—	46
Reclassification from properties under development (note 17(a)(ii))	5	—	—	2	7
Depreciation	—	(4)	(12)	—	(16)
Exchange differences	(1)	—	(1)	(1)	(3)
Net book value at December 31, 2015	42	72	39	7	160
At December 31, 2015					
At cost	42	94	165	7	308
Less: Accumulated depreciation	—	(22)	(126)	—	(148)
Net book value	42	72	39	7	160
Net book value at January 1, 2016	**42**	**72**	**39**	**7**	**160**
Additions	**—**	**—**	**13**	**14**	**27**
Transfers	**—**	**—**	**4**	**(4)**	**—**
Depreciation	**—**	**(4)**	**(15)**	**—**	**(19)**
Exchange differences	**(1)**	**5**	**1**	**1**	**6**
Net book value at December 31, 2016	**41**	**73**	**42**	**18**	**174**
At December 31, 2016					
At cost	**41**	**99**	**183**	**18**	**341**
Less: Accumulated depreciation	**—**	**(26)**	**(141)**	**—**	**(167)**
Net book value	**41**	**73**	**42**	**18**	**174**

17. PROPERTIES UNDER/HELD FOR DEVELOPMENT

a. Properties under development

HK$ million	**2016**	2015
At January 1,	**349**	352
Additions	**29**	4
Reclassification to property, plant and equipment (note ii)	**—**	(7)
Exchange differences	**24**	—
At December 31,	**402**	349

(i) Properties under development as at December 31, 2016 represents freehold land in Japan which is held by an indirect wholly-owned subsidiary. Management has performed assessments of the recoverable amount of the development project in Japan included in properties under development as at December 31, 2016. The valuation is based on the discounted cash flow forecast of the development project which involves the use of significant estimates and assumptions such as selling prices, construction costs and discount rate. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the recoverable amount of the development project.

(ii) During the year ended December 31, 2015, the Group entered into a management agreement with an international hotel operator for the hotel and branded residences of this development project in Japan. As the hotel is intended to be owned by the Group with the outsourced hotel management services, the carrying value in relation to the land and capitalised costs attributable to the hotel portion has been reclassified from properties under development to property, plant and equipment following the change in use (note 16).

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17. PROPERTIES UNDER DEVELOPMENT/HELD FOR DEVELOPMENT – CONTINUED

b. Properties held for development

HK$ million	2016	2015
At January 1,	525	566
Additions	13	8
Exchange differences	6	(49)
At December 31,	544	525

Properties held for development as at December 31, 2016 represents freehold land in Thailand, for which the Group intends for future development projects. The land in Thailand is held by the Group through a long-term operating lease agreement with the legal owners, 39 per cent owned entities, established to hold the land, whose financial statements have been consolidated into these consolidated financial statements (note 21).

Management has performed assessments of the recoverable amount of the property interest together with the costs of improvements spent on the land in Thailand included in properties held for development as at December 31, 2016. The valuation is based on the direct comparison approach which involves the use of estimates and assumptions including the recent sales prices of similar properties with adjustments for any difference in nature, locality and condition of the properties. Changes in the assumptions adopted in the valuation may result in a change in future estimates of the recoverable amount of the development project.

18. GOODWILL

HK$ million	2016	2015
Costs:		
At January 1, and December 31,	99	99
Accumulated impairment losses:		
At January 1, and December 31,	(96)	(96)
Carrying amount:		
At December 31,	3	3

18. GOODWILL – CONTINUED

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

HK$ million	**2016**	2015
Other business – property management operations	**3**	3
At December 31,	**3**	3

Management has performed assessments of the recoverable amount of the property management operations which is determined based on the cash flow forecast of the business. Management considered there is no impairment of goodwill in relation to the property management operations as at December 31, 2016 (2015: Nil).

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

19. OTHER FINANCIAL ASSETS

Financial assets at fair value through profit or loss:

HK$ million	**2016**	2015
Listed equity securities, Hong Kong	**7**	6
Less: Amount classified as current assets	**(4)**	(4)
	3	2

20. DERIVATIVE FINANCIAL INSTRUMENT

On June 25, 2015, the Group executed an Indonesian Rupiah/US dollars currency call spread option for a notional amount of US$200 million with a tenor of one year (the "Option"). An option premium of US$8 million (equivalent to HK$62 million) was paid up-front. The Option was purchased for the purpose of managing the risk of foreign currency exposure arising from the Group's net investment in the foreign operation in Indonesia. It is recognised as a derivative financial instrument at fair value. The Option expired on June 27, 2016. As at June 27, 2016, the fair value of the Option was nil (December 31, 2015: HK$60 million). Upon the expiry of the Option, the derivative financial instrument has been de-recognised. The total fair value loss of HK$60 million is recognised in "other losses, net" in the consolidated statement of comprehensive income for the year ended December 31, 2016 (note 6).

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

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

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
北京裕澤諮詢服務有限公司[1]	The People's Republic of China	Property management	US$100,000	—	100%
City Charm Enterprises Limited 城創企業有限公司	British Virgin Islands	Investment holding	US$1	—	100%
Cyber-Port Limited 資訊港有限公司	Hong Kong	Property development	HK$2	—	100%
Dong Si (Holdings) Limited 盈科優質創建有限公司	Hong Kong	Provision of leasing and financing	HK$1	—	100%
Harmony TMK	Japan	Property development	JPY5,050,000,000 (JPY100,000,000 specified shares and JPY4,950,000,000 preferred shares)	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US$2	100%	—
Island South Property Management Limited 南盈物業管理有限公司	Hong Kong	Property management	HK$2	—	100%

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

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
Interstate Holdings Limited	Hong Kong	Property development management	HK$3,510,236,001	—	100%
Kabushiki Kaisha Niseko Management Service	Japan	Property management and travel agency	JPY10,000,000	—	100%
Madeline Investments Limited 盈科大衍地產發展有限公司	Hong Kong	Trademark registrant	HK$2	—	100%
Melati Holding Limited	British Virgin Islands	Investment holding	US$93,612	—	100%
Nihon Harmony Resorts KK	Japan	Ski operation	JPY405,000,000	—	100%
PCPD Facilities Management Limited	Hong Kong	Provision of property management services	HK$2	—	100%
PCPD Services Limited	Hong Kong	Provision of administrative services	HK$2	—	100%
PCPD South Village Hotel Co., Ltd.	Japan	Hotel management	JPY199,000,000	—	100%
PCPD Wealth Limited	Hong Kong	Provision of financial services	HK$1	—	100%

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

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

Note:

1 Represents a wholly foreign owned enterprise.

22. CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of the Group's property development project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to the residential portion of the Cyberport project and will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK$510 million as at December 31, 2016 (2015: HK$513 million) are exposed to minimum credit risk.

22. CURRENT ASSETS AND LIABILITIES – CONTINUED

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK$95 million as at December 31, 2016 (2015: HK$96 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

The remaining balance of HK$8 million as at December 31, 2016 (2015: Nil) represents cash balance held in specific interest reserve account pledged for bank borrowings purpose.

c. Trade receivables, net

(i) Aging analysis

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

HK$ million	**2016**	2015
Current	**6**	5
One to three months	**3**	2
More than three months	**1**	—
	10	7

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

(ii) Trade receivables of HK$10 million (2015: HK$7 million) are exposed to credit risk. No trade receivable was impaired (2015: Nil) and no provision was made as at December 31, 2016 (2015: Nil). The amounts in trade receivables balance relate to a wide range of customers for whom there is no recent history of default.

As at December 31, 2016, trade receivables of HK$4 million were past due but not impaired (2015: HK$2 million).

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22. CURRENT ASSETS AND LIABILITIES – CONTINUED

c. Trade receivables, net – Continued

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

HK$ million	**2016**	2015
Renminbi	**3**	2
Hong Kong dollar	**3**	1
Japanese yen	**4**	4
	10	7

d. Trade payables

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

HK$ million	**2016**	2015
Current	**23**	13
More than three months	**—**	1
	23	14

e. Accruals, other payables and deferred income

Accruals, other payables and deferred income represents accruals for construction costs and operating costs, retention payables, tenants deposits and deferred income. The outstanding consideration of land payable of approximately HK$178 million as at December 31, 2015 has been fully settled in 2016.

23. BANK BORROWINGS

HK$ million	**2016**	2015
Bank borrowings, secured:		
– Repayable within a year	**457**	—

On January 21, 2014, indirect wholly-owned subsidiaries of the Company entered into USD facilities agreements ("USD Facility") which the lenders would make available term loan facilities in an aggregate amount of US$200 million, comprising a term loan facility for US$140 million (the "USD Facility A") and a term loan facility for US$60 million (the "USD Facility B"), for financing the development of a Premium Grade A office building in Jakarta, Indonesia. The USD Facility must be repaid on or before six months after the completion of the building or December 31, 2017, whichever is earlier. The USD Facility are secured by the shares and assets of the indirect wholly-owned subsidiaries and one of the indirectly wholly-owned subsidiaries is subjected to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. As at December 31, 2016, none of the covenants were breached. During the year ended December 31, 2016, one of the indirect wholly-owned subsidiaries made drawdown of US$60 million under USD Facility B. No drawdown has yet been made by the Group under USD Facility A as at December 31, 2016.

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

	2016		
HK$ million	**Government share under the Cyberport Project Agreement (note a)**	**Others**	**Total**
At January 1, 2016	**322**	**—**	**322**
Reversal	**(1)**	**—**	**(1)**
At December 31, 2016	**321**	**—**	**321**

	2015		
HK$ million	Government share under the Cyberport Project Agreement (note a)	Others	Total
At January 1, 2015	517	5	522
Reversal	(1)	(5)	(6)
Settlement during the year	(194)	—	(194)
At December 31, 2015	322	—	322

a. Pursuant to the Cyberport Project Agreement, the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the HKSAR Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. The construction of residential portion of the Cyberport project was completed in November 2008.

Pursuant to the Cyberport Project Agreement, the HKSAR Government shall be entitled to receive payments of approximately 65 per cent from the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the HKSAR Government is based on the surplus from sales proceeds of the residential portion after the development costs of the Cyberport project.

25. ISSUED EQUITY

	The Group	
	Number of shares	Issued equity HK$ million
	(note a)	(note a)
Ordinary shares of HK$0.50 each at January 1, 2015 and December 31, 2015	402,668,313	2,848
Shares repurchased and cancelled (note d)	(199,000)	(1)
Ordinary shares of HK$0.50 each at December 31, 2016 (note e)	**402,469,313**	**2,847**

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

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

	The Company	
	Number of shares	Nominal value HK$ million
Authorised:		
Ordinary shares of HK$0.50 each at December 31, 2015 and December 31, 2016	**4,000,000,000**	**2,000**
Issued and fully paid:		
Ordinary shares of HK$0.50 each at January 1, 2015 and December 31, 2015	402,668,313	201
Shares repurchased and cancelled (note d)	(199,000)	—
Ordinary shares of HK$0.50 each at December 31, 2016 (note e)	**402,469,313**	**201**

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25. ISSUED EQUITY – CONTINUED

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

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

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

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

e. As at December 31, 2016, the number of the total issued and fully paid consolidated ordinary shares of HK$0.50 each was 402,469,313.2. Fractional shares amounted to 1.2 ordinary shares of HK$0.50 each were generated from the share consolidation on June 25, 2012 and are retained by the Company in accordance with the terms of the share consolidation. Such fractional shares are registered under the name of an indirect wholly-owned subsidiary of the Company. Amongst such 1.2 fractional shares, 0.2 shares of which are not tradable on the main board of the Stock Exchange and such 0.2 shares are not shown in this section.

26. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement schemes

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

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

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

27. SHARE-BASED PAYMENT TRANSACTIONS

a. Share option scheme

On May 6, 2015, the share option scheme effective on May 23, 2005 (the "2005 Scheme") was terminated following the approval by the shareholders of the Company at the annual general meeting of the Company held on the same day to adopt another new share option scheme (the "2015 Scheme"). The 2015 Scheme became effective on May 7, 2015, following its approval by PCCW's shareholders. The 2015 Scheme is valid and effective for a period of 10 years commencing on May 7, 2015.

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

a. Share option scheme – Continued

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

No share options have been granted or exercised under the 2015 Scheme and 2005 Scheme during the years ended December 31, 2016 and December 31, 2015. There are no share options outstanding as at December 31, 2016 and December 31, 2015.

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme

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

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

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

	Number of PCCW shares	
	2016	2015
At January 1,	**1,265,209**	1,163,550
Purchased from market by the trustee at average market price of HK$5.08 per PCCW share (2015: HK$5.08)	**538,000**	837,000
Vested	**(845,867)**	(735,341)
At December 31,	**957,342**	1,265,209

	Number of HKT share stapled units	
	2016	2015
At January 1,	**—**	—
Purchased from market by the trustee at average market price of HK$11.15 per HKT share stapled unit	**243,000**	—
At December 31,	**243,000**	—

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27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

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

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

	2016 Weighted average fair value on date of award HK$	**2016** Number of PCCW shares	2015 Weighted average fair value on date of award HK$	2015 Number of PCCW shares
At January 1,	**4.89**	**1,264,428**	4.04	1,162,647
Awarded (note iii)	**5.20**	**538,303**	5.35	837,122
Vested	**4.66**	**(845,867)**	4.07	(735,341)
At December 31, (note ii)	**5.27**	**956,864**	4.89	1,264,428

	2016 Weighted average fair value on date of award HK$	**2016** Number of HKT share stapled units	2015 Weighted average fair value on date of award HK$	2015 Number of HKT share stapled units
At January 1,	**—**	**—**	—	—
Awarded (note iii)	**11.18**	**242,311**	—	—
At December 31, (note ii)	**11.18**	**242,311**	—	—

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

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

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW shares **2016**	2015
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	**—**	427,306
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	**—**	418,561
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	**418,561**	418,561
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	**269,152**	—
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	**269,151**	—
			956,864	1,264,428

Date of award	Vesting period	Fair value on the date of award HK$	Number of HKT share stapled units **2016**	2015
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	**121,156**	—
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	**121,155**	—
			242,311	—

The PCCW shares and HKT share stapled units unvested at December 31, 2016 had a weighted average remaining vesting period of 0.58 years (2015: 0.66 years) and 0.76 years (2015: not applicable), respectively.

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27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

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

			Number of PCCW shares	
Date of award	Vesting period	Fair value on the date of award HK$	**2016**	2015
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	—	418,561
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	—	418,561
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	**269,152**	—
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	**269,151**	—
			538,303	837,122

			Number of HKT share stapled units	
Date of award	Vesting period	Fair value on the date of award HK$	**2016**	2015
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	**121,156**	—
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	**121,155**	—
			242,311	—

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

c. Share-based payment transactions with cash alternatives

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

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

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

A financial liability would be recognised in the consolidated statement of financial position in relation to the Supporter Put Option until the exercise of the Supporter Put Option by the Supporter. Management considered the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2016, therefore the fair value of the Supporter Shares is nil (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

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

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

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

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

Management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2016, therefore the fair value of the Investor Shares is nil (2015: Nil).

28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

a. Statement of Financial Position of the Company

HK$ million	Note	2016	2015
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary		**2,870**	2,870
Current assets			
Prepayments		**—**	1
Amounts due from subsidiaries		**7,069**	7,071
		7,069	7,072
Current liabilities			
Accruals and other payables		**2**	3
Amount due to a subsidiary		**4,701**	4,697
		4,703	4,700
Net current assets		**2,366**	2,372
Total assets less current liabilities		**5,236**	5,242
Net assets		**5,236**	5,242
CAPITAL AND RESERVES			
Share capital	25 (b)	**201**	201
Reserves	28 (b)	**5,035**	5,041
		5,236	5,242

Lee Chi Hong, Robert
Director

James Chan
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

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

b. Reserves of the Company

			2016		
HK$ million	**Share premium**	**Capital redemption reserve**	**Convertible notes reserve**	**Retained earnings**	**Total**
Balance at January 1, 2016	**2,449**	**1**	**592**	**1,999**	**5,041**
Total comprehensive loss for the year	**—**	**—**	**—**	**(5)**	**(5)**
Shares repurchased and cancelled (note 25(d))	**(1)**	**—**	**—**	**—**	**(1)**
Balance at December 31, 2016	**2,448**	**1**	**592**	**1,994**	**5,035**

			2015		
HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Retained earnings	Total
Balance at January 1, 2015	2,449	1	592	2,003	5,045
Total comprehensive loss for the year	—	—	—	(4)	(4)
Balance at December 31, 2015	2,449	1	592	1,999	5,041

29. DEFERRED INCOME TAX

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

HK$ million	Accelerated tax depreciation	Revaluation of properties	Others	Total
At January 1, 2015	2	5	19	26
Credited to the consolidated statement of comprehensive income	—	—	(7)	(7)
At December 31, 2015	2	5	12	19
At January 1, 2016	**2**	**5**	**12**	**19**
Charged to the consolidated statement of comprehensive income	**1**	**—**	**2**	**3**
At December 31, 2016	**3**	**5**	**14**	**22**

There were no deferred income tax assets netted off against deferred income tax liabilities recognised in the consolidated statement of financial position as at December 31, 2016 (2015: Nil).

b. The deferred income tax liabilities as at December 31, 2016 of HK$22 million (2015: HK$19 million) are expected to be recovered after more than 12 months.

c. The Group has unrecognised estimated tax losses of HK$420 million as at December 31, 2016 (2015: HK$396 million) to be carried forward for deduction against future taxable profits. HK$197 million (2015: HK$193 million) tax losses relating to subsidiaries operating outside Hong Kong would be expired within one to nine years from December 31, 2016 (2015: one to nine years). The remaining HK$223 million (2015: HK$203 million) tax losses are mainly related to Hong Kong companies which can be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of loss before taxation to net cash (used in)/generated from operating activities

HK$ million	2016	2015
Loss before taxation	(346)	(268)
Adjustments for:		
– interest income	(11)	(12)
– depreciation	19	16
– fair value loss on the derivative financial instrument	60	2
– fair value loss on the financial assets at fair value through profit or loss	—	1
– gain on an impaired financial instrument upon liquidation	(3)	—
Operating loss before changes in working capital	**(281)**	(261)

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

Reconciliation of loss before taxation to net cash (used in)/generated from operating activities – Continued

HK$ million	2016	2015
(Increase)/decrease in operating assets:		
– properties under development	(29)	(4)
– properties held for development	(13)	(8)
– other financial assets	(1)	(1)
– non-current prepayment and other receivables	(73)	(42)
– prepayments, deposits and other current assets	(5)	(3)
– sales proceeds held in stakeholders' accounts	3	15
– restricted cash	(7)	926
– trade receivables, net	(3)	1
– amount due from a related company	(3)	—
(Decrease)/increase in operating liabilities:		
– trade payables, accruals, other payables and deferred income	(14)	(15)
– amounts due to fellow subsidiaries	(1)	(1)
– amount payable to the HKSAR Government under the Cyberport Project Agreement	(1)	(200)
– other non-current payables	20	25
Cash (used in)/generated from operations	**(408)**	432
Interest received	11	12
Tax (paid)/refunded		
– in Hong Kong	(1)	7
– outside Hong Kong	(13)	(16)
Net cash (used in)/generated from operating activities	**(411)**	435

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

31. COMMITMENTS

a. Capital

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

HK$ million	2016	2015
Contracted but not provided for		
Property development projects	**34**	19
Investment properties	**472**	1,254
Property, plant and equipment	**11**	7
	517	1,280

b. Operating leases

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

Land and buildings (as lessee)

HK$ million	2016	2015
Within one year	**45**	43
After one year but within five years	**21**	50
After five years	**7**	8
	73	101

The leases typically run for an initial period of three months to ten years (2015: three months to ten years). One (2015: one) of the leases includes contingent rental with reference to the revenue of the lessees' operation.

One of the lease agreements includes an option that allows the Group to purchase the property at a pre-determined price (subject to annual inflation adjustment) during the lease term.

31. COMMITMENTS – CONTINUED

b. Operating leases – Continued

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

Equipment (as lessee)

HK$ million	2016	2015
Within one year	**1**	1
After one year but within five years	**1**	1
	2	2

The leases typically run for an initial period of one year to six years (2015: three months to six years). None of these leases include contingent rentals (2015: none).

(ii) The Group leases out properties under operating leases. The leases typically run for an initial period of one to six years (2015: three to ten years). One (2015: One) of the leases includes contingent rentals with reference to the revenue of the lessees' operations.

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

Land and buildings (as lessor)

HK$ million	2016	2015
Within one year	**13**	15
After one year but within five years	**—**	13
	13	28

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

32. GUARANTEES

Save as disclosed elsewhere in the consolidated financial statements, on January 21, 2014, the Company and an indirect wholly-owned subsidiary had executed guarantees in favour of the lenders of the USD Facility, in the principal amount of US$200 million granted to the indirect wholly-owned subsidiaries (note 23).

33. BANKING FACILITY

Aggregate banking facilities as at December 31, 2016 were HK$1,551 million (2015: HK$1,550 million) of which the unused facilities amounted to HK$1,086 million (2015: HK$1,550 million)(note 23).

Security pledged for the banking facilities includes:

HK$ million	2016	2015
Investment property	**3,214**	2,084
Property, plant and equipment	**2**	2
Other current assets	**87**	143
Restricted cash	**8**	—
Cash & cash equivalents	**88**	39
	3,399	2,268

(i) Performance guarantee of approximately HK$161 million in relation to the construction of the Premium Grade A office building in Jakarta, Indonesia was pledged for certain banking facilities as at December 31, 2016 (2015: HK$161 million).

34. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 70.83 per cent (2015: 70.80 per cent) of the Company's shares. The remaining 29.17 per cent (2015: 29.20 per cent) of the shares are held by public as at December 31, 2016.

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

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

HK$ million	**2016**	2015
Sales of services:		
– Fellow subsidiaries		
Office leases rental	**4**	4
– Related companies		
Facility management services	**32**	31
Other services	**1**	1
Purchases of services:		
– Fellow subsidiaries		
Corporate services	**4**	5
Information technology and other logistic services	**3**	4
Purchases of property, plant & equipment:		
– Fellow subsidiary	**—**	1

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

34. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

b. Details of key management compensation

HK$ million	2016	2015
Salaries and other short-term employee benefits	**16**	16
Bonuses	**8**	9
Directors' fee	**1**	1
Retirement scheme contribution	**2**	2
	27	28

c. Year-end balances arising from sales/purchases of services

HK$ million	2016	2015
Receivables from related parties:		
– Fellow subsidiaries	**1**	1
– Related company	**6**	3
	7	4
Payables to related parties:		
– Fellow subsidiaries	**—**	1

35. FINANCIAL RISK MANAGEMENT

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

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

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

a. Foreign exchange risk

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

HK$ million	**2016** **US dollar**	2015 US dollar
Cash and cash equivalents	**430**	994

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

The Group has certain investments in foreign operations, where the net assets are exposed to foreign currency translation risk. The Group's currency exposures with respect to these operations are mainly from Thai baht, Japanese yen and Indonesian rupiah. To manage the risk of foreign currency exposure arising from the Group's net investment in foreign operation in Indonesia, the Group used different tools such as entering into a currency option (note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

35. FINANCIAL RISK MANAGEMENT – CONTINUED

a. Foreign exchange risk – Continued

Sensitivity analysis for foreign currency exposure

The table below summaries the impact on profit after tax and equity if Hong Kong dollar had appreciated by, one (1) per cent against US dollar or five (5) per cent against other currencies including Thai baht, Japanese yen and Indonesian rupiah at December 31, 2016. This represents the translation of financial assets and liabilities at the end of the reporting period. It assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

HK$ million	**2016** Decrease in profit after tax	**2016** Increase/(Decrease) in other comprehensive income for currency translation	2015 Decrease in profit after tax	2015 Decrease in other comprehensive income for currency translation
US dollar	**(4)**	**4**	(10)	—
Thai baht	**—**	**(27)**	—	(26)
Japanese yen	**—**	**(30)**	—	(25)
Indonesian rupiah	**—**	**(158)**	—	(97)

b. Credit risk

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

Transaction involving derivative financial instrument is with counterparty of sound credit standing and with whom the Group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail in meeting its obligation.

As at December 31, 2016, the Group has a certain concentration of credit risk as 67 per cent (2015: 70 per cent) of the total trade receivables was due from three customers.

35. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk – Continued

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

Cash and cash equivalents

HK$ million	2016	2015
Aa2	25	65
Aa3	91	54
A1	429	784
A2	155	426
A3	75	441
Baa1	13	8
Baa2	6	—
Baa3	50	—
Unrated	24	37
	868	1,815

Short-term deposits

HK$ million	2016	2015
Baa1	—	1
Baa2	3	—
	3	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

35. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk – Continued

Restricted cash

HK$ million	**2016**	2015
Aa2	**95**	96
Aa3	**8**	—
	103	96

35. FINANCIAL RISK MANAGEMENT – CONTINUED

c. Liquidity risk

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
At December 31, 2016						
Bank borrowings	**479**	—	—	—	**479**	**457**
Trade payables	**23**	—	—	—	**23**	**23**
Accruals and other payables	**297**	—	—	—	**297**	**297**
Amount payable to the HKSAR Government under the Cyberport Project Agreement	**321**	—	—	—	**321**	**321**
Other non-current payables	—	**48**	—	**178**	**226**	**208**
At December 31, 2015						
Trade payables	14	—	—	—	14	14
Accruals and other payables	423	—	—	—	423	423
Amounts due to fellow subsidiaries	1	—	—	—	1	1
Amount payable to the HKSAR Government under the Cyberport Project Agreement	322	—	—	—	322	322
Other non-current payables	—	13	20	178	211	189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

35. FINANCIAL RISK MANAGEMENT – CONTINUED

d. Interest rate risks

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

The Group's bank borrowings at variable rates expose the Group to cash flow interest rate risk.

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

	2016		2015	
	Effective interest rate	**HK$ million**	Effective interest rate	HK$ million
Variable rate borrowings:				
Bank borrowings (note 23)	**5.18%**	**457**	—	—
Total borrowings		**457**		—

If interest rate on US dollar denominated borrowings had increased/decreased by 50 basis points as at December 31, 2016 (2015: not applicable) with all other variables held constant, the Groups' finance cost for the year ended December 31, 2016 would have increased/ decreased by approximately HK$2 million (2015: not applicable) and the Groups' profit after tax would remain unchanged (2015: not applicable) mainly as a result of the capitalisation of finance cost into investment properties.

36. CAPITAL MANAGEMENT

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

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

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

The debt-to-adjusted capital ratio is not applicable at December 31, 2016 (2015: not applicable) given the cash and cash equivalents is excess of the borrowings. The debt-to-adjusted capital ratio at both December 31, 2016 and December 31, 2015 are as follows:

HK$ million	**2016**	2015
Bank borrowings	**457**	—
Less: Cash and cash equivalents	**(868)**	(1,815)
Net debt	**(411)**	(1,815)
Issued equity	**2,847**	2,848
Add: Retained earnings	**2,670**	3,034
Adjusted capital	**5,517**	5,882
Debt-to-adjusted capital ratio	**—**	—

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the financial covenant requirements under the loan facilities agreements with external parties (note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 (Amount expressed in Hong Kong dollars unless otherwise stated)

37. FAIR VALUE ESTIMATION

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

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

See note 15 for disclosure of the investment properties that are measured at fair value.

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

	2015			
HK$ million	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial instrument	—	60	—	60
Other financial assets	6	—	—	6
	6	60	—	66

During the years ended December 31, 2016 and December 31, 2015, there were no transfers of financial instruments between different levels. There were no changes in valuation techniques during the years.

37. FAIR VALUE ESTIMATION – CONTINUED

(a) Financial instruments in level 1

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

(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) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instrument included in level 2 comprises a currency option classified as derivative financial instrument.

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

Specific valuation techniques used to value financial instruments include:

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

FIVE-YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

Results

HK$ million	2016	2015	2014	2013	2012
Revenue by Principal Activities					
Property development	—	—	—	283	791
Property investment	2	2	151	237	240
All-season recreational activities	92	78	77	72	78
Other businesses	80	85	87	82	75
	174	165	315	674	1,184
Operating (loss)/profit	(357)	(280)	381	490	399
Gain on disposal of subsidiaries, net of tax	—	—	1,390	—	—
Finance income/(costs), net	11	12	(65)	(197)	(167)
(Loss)/profit before taxation	(346)	(268)	1,706	293	232
Income tax	(18)	187	(215)	(216)	(165)
(Loss)/profit attributable to equity holders of the Company	(364)	(81)	1,491	77	67

Assets and Liabilities, as at December 31,

HK$ million	2016	2015	2014	2013	2012
Total non-current assets	4,665	3,375	3,129	9,773	7,317
Total current assets	1,663	2,890	4,368	2,564	3,208
Total current liabilities	(1,102)	(777)	(1,748)	(3,906)	(1,377)
Net current assets/(liabilities)	561	2,113	2,620	(1,342)	1,831
Total assets less current liabilities	5,226	5,488	5,749	8,431	9,148
Total non-current liabilities	(280)	(233)	(187)	(2,932)	(3,454)
Net assets	4,946	5,255	5,562	5,499	5,694

SCHEDULE OF PRINCIPAL PROPERTIES

	Address	Intended use	Stage of completion	Expected date of completion	Approximate gross site area (sq.m.)	Approximate gross floor area (sq.m.)
1	**Major properties under development**					
	Japan					
	328-1 Aza Iwaobetsu, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Commercial and residential	Design stage	N/A	772,391	593,738

	Address	Gross site area (sq.m.)	Category of the lease*
2	**Major properties held for development**		
	Thailand		
	Moo 3 & 9, Thai Muang Subdistrict, Thai Muang District Phang-nga, 82120 Thailand	1,700,465	Long

	Address	Intended use	Stage of completion	Expected date of completion	Gross site area (sq.m.)	Approximate gross floor area (sq.m.)	Percentage held by the Group
3	**Major properties held for investment**						
	Indonesia						
	Jenderal Sudirman Kav. No. 52-53 Lot 10 Senayan, Kebayoran Baru South Jakarta, Indonesia	Commercial	Superstructure completed and fit-out in progress	2017	9,277	90,500	100%

* Lease term:
Long term: Lease not less than 50 years

INVESTOR RELATIONS

LISTING

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

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

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

Tsang Sai Chung

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