恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
Incorporated in Hong Kong with limited liability
(Stock Code : 12)

2016 FINAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's reported profit attributable to equity shareholders for the year ended 31 December 2016 amounted to HK$21,916 million, representing an increase of HK$590 million or 3% over HK$21,326 million for the previous year. Reported earnings per share were HK$6.03 (2015: HK$5.87 as adjusted for the bonus issue in 2016).

Excluding the fair value change (net of non-controlling interests and tax) of investment properties and investment properties under development, the Group's Underlying Profit attributable to equity shareholders for the year ended 31 December 2016 was HK$14,169 million, representing an increase of HK$3,160 million or 29% over HK$11,009 million for the previous year. Underlying Earnings Per Share were HK$3.90 (2015: HK$3.03 as adjusted for the bonus issue in 2016).

DIVIDENDS

The Board recommends the payment of a final dividend of HK$1.13 per share to shareholders whose names appear on the Register of Members of the Company on Tuesday, 13 June 2017, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the interim dividend of HK$0.42 per share already paid, the total dividend for the year ended 31 December 2016 will amount to HK$1.55 per share (2015: HK$1.45 per share).

The proposed final dividend will be payable in cash and is expected to be distributed to shareholders on Wednesday, 21 June 2017.

ISSUE OF BONUS SHARES

The Board proposes to make a bonus issue of one new share for every ten shares held (2015: one bonus share for every ten shares held) to shareholders whose names appear on the Register of Members on Tuesday, 13 June 2017. The relevant resolution will be proposed at the forthcoming annual general meeting, and if passed and upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in such new shares, share certificates of the bonus shares will be posted on Wednesday, 21 June 2017.

BUSINESS REVIEW

The Group's Underlying Profit attributable to equity shareholders for the year ended 31 December 2016 was up by 29% to HK$14,169 million. Pre-tax profit contribution from property sales (including the attributable contribution from subsidiaries, associates and joint ventures) increased by 0.2% to HK$3,987 million, whilst pre-tax net rental income (including the attributable contribution from subsidiaries, associates and joint ventures) increased by 3% to HK$6,481 million. Besides, there was a total net gain of HK$3,930 million arising from the disposal of various non-core investment properties.

Hong Kong

Property Sale

Hong Kong's property market has become active since the second quarter of 2016. In response to the continuing price increases, the Government in November 2016 raised the ad valorem stamp duty on residential property transactions for non first-time buyers to a flat rate of 15%. A new round of demand-suppression measures by the Government, coupled with a subsequent interest rate rise in the US, led to relatively cautious overall market sentiment by the year end.

Development projects which were launched during the year, including "Double Cove Summit" (Phase 5 of "Double Cove") in Ma On Shan, "Wellesley" in Mid-Levels, "Seven Victory Avenue" in Ho Man Tin, as well as "Harbour Park" and "Park One" in Cheung Sha Wan, drew encouraging market responses. Meanwhile, "39 Conduit Road" in Mid-Levels, "Double Cove" (Phases 1-4) in Ma On Shan, as well as an array of urban redevelopment boutique residences under "The H Collection" were re-launched and sold well. For the year ended 31 December 2016, the Group sold an attributable total amount of HK$10,082 million of Hong Kong residences.

During the year, the 156,000-square-foot office building "Golden Centre" in Sheung Wan was sold en-bloc at the consideration of HK$4,368 million. Together with the disposal of other non-residential properties such as the industrial units at "Global Gateway Tower" in Cheung Sha Wan, as well as the shop units at "The Zutten" in Ma Tau Kok and "PARKER33" in Shau Kei Wan, attributable proceeds arising from these disposals totalled HK$4,811 million. Including the aforesaid residential sales revenue, the Group sold HK$14,893 million worth of Hong Kong properties in attributable terms during the year under review, an increase of 30% as compared with HK$11,472 million for the year before.

After the end of the financial year under review, twelve shops at "Fairview Height" in Mid-levels, which were previously held for leasing, were disposed of in January 2017 at a total consideration of HK$515 million (subject to adjustment). "Newton Place Hotel" in Kwun Tong and "Newton Inn" in North Point were sold in February 2017 at about HK$2,248 million (subject to adjustment) and HK$1,000 million (subject to adjustment) respectively. The Group also released "Eden Manor" and "Mega Cube" for sale in March 2017 and market responses were satisfactory.

Property Development

The Group has 39 urban redevelopment projects with 80% to 100% of their ownerships acquired, representing about 3.8 million square feet in total attributable gross floor area.

The Group has made use of multiple channels to expand its development land bank in Hong Kong. With the exception of a few projects earmarked for rental purposes, there will be abundant supply of saleable areas for the Group's property sales in the coming years with details shown as follows:

Below is a summary of properties under development and major completed stock:

			No. of projects	Attributable saleable/gross floor area (million sq. ft.) (Note 1)	Note
(A)	**Area available for sale in 2017:**				
1.	Unsold units from major development projects offered for sale	(Table 1)	25	0.7	
2.	Projects pending sale in 2017	(Table 2)	8	1.3	
			Sub-total:	**2.0**	Of which an attributable floor area of about 800,000 sq. ft. was sourced from urban redevelopment projects
(B)	**Projects in Urban Areas:**				
3.	Existing urban redevelopment projects	(Table 3)	5	1.4	Dates of sales launch are not yet fixed and one of them is pending finalisation of land premium with the Government
4.	Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated	(Table 4)	17	1.8	Most of them are expected to be available for sale or leasing in 2018-2019
5.	Newly-acquired Urban Redevelopment Projects – with 80% or above ownership secured	(Table 5)	22	2.0	Most of them are expected to be available for sale in 2019-2021
6.	Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured	(Table 6)	30	0.8	Redevelopments of these projects are subject to successful consolidation of their ownerships
7.	15 Middle Road Tsim Sha Tsui, Kowloon (acquired through public tender)		1	0.3	To be held for rental purposes upon completion of development
			Sub-total:	**6.3**	
			Total for the above categories (A) and (B) development projects:	**8.3**	

(C) Major development projects in the New Territories:

– Fanling North/Kwu Tung	4.0	(Note 2)
– Wo Shang Wai	0.9	(Note 2)
– Kwun Chui Road, Area 56, Tuen Mun Town Lot No. 500 (acquired through public tender)	0.8	
– Yuen Long Town Lot 524	0.1	
– Others	0.3	
Sub-total:	**6.1**	
Total for categories (A) to (C):	**14.4**	

Note 1: Gross floor area is calculated on the basis of the Buildings Department's approved plans or the Government's latest town planning parameters, as well as the Company's development plans. For certain projects, it may be subject to change depending on the actual needs in future.

Note 2: Developable area is subject to finalisation of land premium.

(Table 1) Unsold units from the major development projects offered for sale

There are 25 development projects available for sale:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	At 31 December 2016	
						No. of residential units remaining unsold	Saleable area remaining unsold (sq. ft.)
1.	Double Cove – Phases 1-5 8 Wu Kai Sha Road Ma On Shan	1,006,407	2,960,031	Commercial/ Residential	59.00	269	396,308
2.	The Reach 11 Shap Pat Heung Road Yuen Long	371,358	1,299,744	Residential	79.03	22	22,464
3.	Green Code 1 Ma Sik Road Fanling	95,800	538,723	Commercial/ Residential	33.41	7	7,217
4.	High Park* 51 Boundary Street	5,880	52,919	Commercial/ Residential	100.00	2	950
5.	High Point* 188 Tai Po Road Cheung Sha Wan	8,324	70,340	Commercial/ Residential	100.00	3	1,542
6.	High Place* 33 Carpenter Road	3,582	31,632	Commercial/ Residential	100.00	4	2,014
7.	39 Conduit Road* Mid-Levels	56,748	229,255	Residential	60.00	13	34,398
8.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	4	11,742
9.	Green Lodge 23 Ma Fung Ling Road Tong Yan San Tsuen	78,781	78,781	Residential	100.00	6	12,762
10.	Metro6 121 Bulkeley Street Hung Hom	6,268	55,557	Commercial/ Residential	33.41	6	2,499
11.	High One Grand* 188 Fuk Wing Street Cheung Sha Wan	7,350	62,858	Commercial/ Residential	100.00	3	2,130
12.	High One* 571 Fuk Wa Street Cheung Sha Wan	7,560	63,788	Commercial/ Residential	100.00	6	2,439
13.	H • Bonaire* 68 Main Street Ap Lei Chau	7,953	65,761	Commercial/ Residential	100.00	17	8,080

14.	Jones Hive* 8 Jones Street Causeway Bay	6,529	65,267	Residential	79.762	28	13,083
15.	High Park Grand* 68 Boundary Street Mong Kok	6,750	60,750	Commercial/ Residential	100.00	31	33,327
16.	AXIS* 200 Ma Tau Wai Road Hung Hom	4,905	41,314	Commercial/ Residential	100.00	32	8,053
17.	PARKER33* 33 Shing On Street Shau Kei Wan	7,513	80,090	Commercial/ Residential	100.00	23	8,334
18.	Eltanin • Square Mile* 11 Li Tak Street Mong Kok	19,600	176,373	Commercial/ Residential	100.00	12	4,993
19.	The Zutten* 50 Ma Tau Kok Road	11,400	102,570	Commercial/ Residential	100.00	10	2,709
20.	Harbour Park* 208 Tung Chau Street Cheung Sha Wan	6,528	55,077	Commercial/ Residential	33.41	16	3,663
21.	Wellesley* 23 Robinson Road Mid-Levels	31,380	156,901	Residential	50.00 (Note 1)	28	47,195
22.	Park One* 1,3 Nam Cheong Street 180 Tung Chau Street Cheung Sha Wan	8,559	77,029	Commercial/ Residential	100.00	90	40,193
23.	Seven Victory Avenue* 7 Victory Avenue Ho Man Tin	9,865	83,245	Commercial/ Residential	100.00	140	38,783
24.	Global Gateway Tower* 61A-61E and 63 Wing Hong Street Cheung Sha Wan	28,004	336,052	Industrial	100.00	Not applicable	126,311 (Note 2)
25.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	Not applicable	60,359 (Note 2)
					Sub-total:	**772**	**891,548**
					Area attributable to the Group:		**675,438**

Note 1: Representing the Group's interest after the allocation of the relevant residential units to each of the involved developers separately on a proportional basis under the "Deed of Mutual Grant and Covenant and Management Agreement".
Note 2: Representing the office or industrial area.

* Urban redevelopment projects totalling approximately 340,000 square feet of remaining area attributable to the Group.

(Table 2) Projects pending sale in 2017

In the absence of unforeseen delays, the following 8 projects will be available for sale in 2017:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	No. of residential units	Residential gross floor area (sq. ft.)
1.	Eden Manor 88 Castle Peak Road, Kwu Tung (adjacent to the Hong Kong Golf Club in Fanling and launched for sale in March 2017)	154,280	555,399	Residential	100.00	590	496,619 (Note 1)
2.	Mega Cube 8 Wang Kwong Road Kowloon Bay (launched for sale in March 2017)	21,528	171,194	Office	100.00	Not applicable	185,301 (Note 2)
3.	460 Queen's Road West, Western District*	28,027	272,301	Commercial/ Residential	100.00	645	222,238
4.	Yuen Long Town Lot 527 (Note 3)	6,131	21,453	Commercial/ Residential	79.03	63	19,290
5.	856 King's Road North Point*	17,720	177,783	Commercial/ Residential	100.00	464	150,074
6.	12-18 Tin Wan Street, Aberdeen*	4,060	37,566	Commercial/ Residential	100.00	142	34,994
7.	38 Hillwood Road Tsim Sha Tsui*	4,586	55,031	Commercial	100.00	Not applicable	55,031 (Note 2)
8.	The Globe 79 Wing Hong Street Cheung Sha Wan	14,343	172,113	Office	100.00	Not applicable	172,113 (Note 2)
					Total:	**1,904**	**1,335,660**
						Area attributable to the Group:	**1,331,615**

Note 1: Representing the residential saleable area.
Note 2: Representing the commercial/office area.
Note 3: Pending the issue of pre-sale consent.

***** Urban redevelopment projects totalling approximately 460,000 square feet of area attributable to the Group.

(Table 3) Existing urban redevelopment projects

The Group has a total of 5 existing projects under planning for redevelopment or land-use conversion and the dates of their sales launch are not yet fixed. As outlined below, they are expected to provide about 1.4 million square feet in attributable gross floor area in the urban areas based on the Buildings Department's approved plans or the Government's latest town planning:

Project name and location		Site area (sq. ft.)	Expected gross floor area upon redevelopment (sq. ft.)	Group's interest (%)	Expected attributable gross floor area upon redevelopment (sq. ft.)
1.	45 Pottinger Street, Central, Hong Kong (Note 1)	9,067	135,995	19.10	25,975
2.	29A Lugard Road The Peak, Hong Kong	23,649	11,824	100.00	11,824
3.	18 King Wah Road North Point, Hong Kong (Notes 1 and 2)	52,689	329,752	100.00	329,752
4.	218 Electric Road North Point, Hong Kong (Note 1)	9,600	143,993	100.00	143,993
5.	Yau Tong Bay Kowloon (Note 3)	810,454	3,991,981	22.80	910,172
	Total:	**905,459**	**4,613,545**		**1,421,716**

Note 1: Investment property.
Note 2: It is being developed into an office tower with its scheduled completion in mid-2017.
Note 3: The modified master layout plan was approved in February 2015 and it is pending finalisation of land premium with the Government.

(Table 4) Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated

There are 17 newly-acquired urban redevelopment projects with ownership fully consolidated. In the absence of unforeseen delays, most of these projects are expected to be available for sale or leasing in 2018-2019 and their expected attributable gross floor areas, based on the Buildings Department's approved plans or the Government's latest town planning, are as follows:

	Project name and location	**Site area (sq. ft.)**	**Expected attributable gross floor area upon redevelopment (sq. ft.)**	
Hong Kong				
1.	1-17 Chung Ching Street, Sheung Wan	7,071	60,104	
2.	1-4 Ladder Street Terrace, Sheung Wan	2,860	14,300	
3.	206-212 Johnston Road, Wanchai	4,339	65,087	(Note 1)
4.	62C Robinson Road and 6 Seymour Terrace Mid-Levels	3,851	33,099	
5.	4A-4P Seymour Road, Mid-Levels (65% stake held by the Group)	52,466	306,921	
	Sub-total:	**70,587**	**479,511**	
Kowloon				
6.	8-30A Ka Shin Street, Tai Kok Tsui	19,519	175,555	
7.	25-29 Kok Cheung Street, Tai Kok Tsui	22,885	205,965	
8.	456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po	22,965	206,685	(Note 2)
9.	1-15 Berwick Street and 202-220 Nam Cheong Street, Shek Kip Mei	20,288	162,304	
10.	2A-2F Tak Shing Street, Jordan	10,614	84,912	
11.	342-348 Un Chau Street, Cheung Sha Wan	4,579	38,922	
12.	352-354 Un Chau Street, Cheung Sha Wan	2,289	19,457	
13.	11-19 Wing Lung Street, Cheung Sha Wan	6,510	58,585	(Note 2)
14.	69-83 Fuk Lo Tsun Road, Kowloon City	9,543	83,015	(Note 2)
15.	57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan	23,031	207,277	
16.	31-33 Whampoa Street, Hung Hom	3,000	25,500	
17.	74-74C Waterloo Road and 15-25 Yau Moon Street, Ho Man Tin (49% stake held by the Group)	10,677	39,240	
	Sub-total:	**155,900**	**1,307,417**	
	Total:	**226,487**	**1,786,928**	

Note 1: To be held for rental purposes upon completion of development.
Note 2: Developable area may be subject to payment of land premium.

(Table 5) Newly-acquired Urban Redevelopment Projects – with 80% or above ownership secured

There are 22 newly-acquired urban redevelopment projects with 80% or above ownership secured and their ownership will be consolidated by proceeding to court for compulsory sale under the "Land (Compulsory Sale for Redevelopment) Ordinance". In the event that no court order is granted, the Group may not be able to complete the consolidation of the ownership for development. If legal procedures go smoothly and in the absence of unforeseen delays, most of the projects set out below are expected to be available for sale in 2019-2021. On the basis of the Government's latest town planning, the expected attributable gross floor areas are shown as follows:

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)
Hong Kong			
1.	73-73E Caine Road, Mid-Levels	6,781	60,659
2.	13-17 Wood Road, Wanchai	6,008	51,068
3.	2 Tai Cheong Street, Sai Wan Ho	13,713	123,417
4.	83-95 Shek Pai Wan Road, Aberdeen	6,078	57,741
5.	4-6 Tin Wan Street, Aberdeen	1,740	14,790
6.	9-13 Sun Chun Street, Tai Hang	2,019	18,171
7.	24-46 Pan Hoi Street, Quarry Bay (50% stake held by the Group)	10,604	50,369
8.	72-94 Pan Hoi Street, Quarry Bay (50% stake held by the Group)	11,488	54,568
9.	983-987A King's Road and 16-22 Pan Hoi Street, Quarry Bay (50% stake held by the Group)	6,696	31,806
	Sub-total:	**65,127**	**462,589**
Kowloon			
10.	35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui	20,114	181,009
11.	1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui	9,642	86,778
12.	17-27 Berwick Street, Shek Kip Mei	7,725	61,800
13.	3-10 Yiu Tung Street, Shek Kip Mei	9,750	78,000
14.	2-28 Gillies Avenue South and 76-78 Baker Street, Hung Hom	23,375	210,375
15.	1-21C Whampoa Street and 80-86 Baker Street, Hung Hom	19,725	177,525
16.	2-16A Whampoa Street, Hung Hom	14,400	129,600
17.	22-24 Whampoa Street and 88-90A Baker Street, Hung Hom	4,675	42,075
18.	30-44 Gillies Avenue South and 75-77 Baker Street, Hung Hom	13,175	118,575
19.	23-29 and 35-37 Whampoa Street and 79-81 Baker Street, Hung Hom	8,625	77,625
20.	26-40A Whampoa Street and 83-85 Baker Street, Hung Hom	13,175	118,575
21.	39-41 Whampoa Street, 12A-22A Bulkeley Street and 46-50 Gillies Avenue South, Hung Hom	11,900	107,100
22.	68A-70C To Kwa Wan Road, 14-16 Ha Heung Road, 1-7 Lai Wa Street and 2-8 Mei Wa Street, To Kwa Wan	22,023	149,141
	Sub-total:	**178,304**	**1,538,178**
	Total:	**243,431**	**2,000,767**

(Table 6) Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured

The Group has other acquisitions in progress, involving 30 projects located in prime urban areas in Hong Kong and Kowloon. Currently, ownership ranging from more than 20% to less than 80% of each project has been achieved. The attributable land areas of these projects total about 210,000 square feet. If and when their ownerships are successfully consolidated, based on the Government's latest town planning, the total estimated attributable gross floor area would be about 1,860,000 square feet upon completion of redevelopment. Based on the respective ownership currently secured by the Group for each project, the total pro-rata attributable gross floor area is about 800,000 square feet.

Successful acquisitions of the above projects bear uncertainty. The Group may not be able to consolidate ownerships of all projects. Redevelopments can only be implemented upon acquisition of the full ownership of the relevant projects.

Land Bank

The Group continues to replenish its land bank by acquiring old tenement buildings for redevelopment and applying for land-use conversion for its portfolio of New Territories land. This dual approach to land banking has proven to be a reliable source of land supply with a lower acquisition cost, which is beneficial to the Group's development returns in the long term. Such land banking strategy is, in fact, a win-win move for all parties. By acquiring old tenement buildings for redevelopment, owners of the dilapidated properties can upgrade to homes with much better living conditions, while the old districts will be revitalised with a refreshing look. Meanwhile, land resources in the New Territories can be more efficiently used after land-use conversion, offering the exquisite lifestyle and tranquil ambience that many people aspire after.

It is evident that the Group's urban redevelopment projects, as well as development of New Territories land, will create benefits not only for shareholders, but also for residents and tenants, as well as enhancing environmental conservation and community development. The redevelopment project at 18 King Wah Road, North Point and "Double Cove" in Ma On Shan are manifest examples:

(1) The industrial site for the former "Asia Cold Storage" at 18 King Wah Road, North Point will be redeveloped into a 330,000-square-foot Grade-A office building upon its scheduled completion in mid-2017. The land premium for such land-use conversion was finalised with the Government in July 2016 at about HK$2,218.7 million. Including the acquisition cost, the land cost per square foot of gross floor area was approximately HK$8,700. This office development at 18 King Wah Road is hailed as a metropolitan landmark and has received many awards. It embodies not just state-of-the-art facilities but also an environmentally sustainable design. The Group has meticulously planned this urban waterfront project so as to offer sweeping Victoria Harbour views for its tenants, whilst certain space in this pricy site has also been kept for a landscaped corridor, ensuring a free passage of sea breeze and natural light to the whole neighbourhood.

(2) As for the Group's 59%-owned "Double Cove" in Ma On Shan, the entire project consists of 3,535 residential units with a total gross floor area of about 2.95 million square feet. Pre-sale for its Phase 1 development was launched in September 2012. By the end of December 2016, over 92% of its total residential units had been sold, generating cumulative total sales revenue of HK$27,839 million. A penthouse unit, in terms of saleable area, was sold at an average price of about HK$22,800 per square foot, a record high around that area. This project is a masterpiece of the world-renowned master architect Lord Richard Rogers. Its development concept of "Living in a Park" embodies eco-friendly buildings, landscaping design, nature conservation, art and other details. The project has thus won many accolades, including the top honour of Grand Award Winner in the Hong Kong Residential (Multiple Buildings) Category of the Quality Building Award 2016. Peers, academics and the government officials, after their site visits, have praised the Group highly for transforming agricultural land into residential use while maintaining the scenic natural beauty of the location to ensure a harmonious and sustainable outcome.

The Group currently has a land bank in Hong Kong comprising a total attributable gross floor area of approximately 24.1 million square feet, made up as follows:

		Attributable gross floor area (million sq. ft.)
Properties under development (Note)		13.7
Unsold units from major launched projects		0.7
	Sub-total:	**14.4**
Completed properties (including hotels) for rental		9.7
	Total:	**24.1**

Note: Including the total developable area of about 4.9 million square feet from the projects in Fanling North/Kwu Tung and Wo Shang Wai, which are subject to finalisation of land premium.

Land in Urban Areas

In addition to those already in the sales pipeline as mentioned, there are currently 39 urban redevelopment projects of old tenement buildings with entire or over 80% ownership acquired, representing a total attributable gross floor area of about 3.8 million square feet, which are expected to be available for sale or leasing in 2018 or beyond. The total land cost of such projects is estimated to be about HK$26,100 million (in spite of the inclusion of pricey street shops and the project at the prestigious Seymour Road in Mid-Levels), translating into a land cost of approximately HK$6,900 per square foot of gross floor area.

During this financial year, the Group completed the acquisition of the entire interests in six development projects (namely, the projects at 4A-4P Seymour Road in Mid-Levels, 1-17 Chung Ching Street in Sheung Wan, 2A-2F Tak Shing Street in Jordan, 464-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street in Sham Shui Po, 57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street in To Kwa Wan, as well as 74-74C Waterloo Road and 15-25 Yau Moon Street in Ho Man Tin). The sites for various existing projects at Whampoa Street, Gillies Avenue South and Bulkeley Street, Hung Hom, were enlarged following the acquisition of the adjacent buildings.

As aforesaid, the land premium for land-use conversion regarding the industrial site at 18 King Wah Road, North Point was agreed with the Government in July 2016. The land cost (including the land premium) and estimated construction cost per square foot of gross floor area are approximately HK$8,700 and HK$3,300 respectively. This office development will be another valuable waterfront project in the Group's sizeable asset portfolio. In addition, the residential-cum-commercial project at Yau Tong Bay is in the process of application for land exchange.

New Territories land

At the end of December 2016, the Group held New Territories land reserves amounting to approximately 44.8 million square feet in land area, which was the largest holding among all property developers in Hong Kong.

In July 2013, the Government announced the result of the "North East New Territories New Development Areas Planning and Engineering Study", of which Kwu Tung North and Fanling North would be treated as the extension of Fanling/Sheung Shui New Town. The Government has also decided to adopt an enhanced Conventional New Town Approach and, subject to specified criteria, private land owners are allowed to apply for in-situ land exchange for private developments. Outline Zoning Plans for both Kwu Tung North and Fanling North were already approved by the Chief Executive-in-Council. Of the Group's land holding of 2.4 million square feet in Fanling North New Development Area, a total land area of roughly over 800,000 square feet is assessed to be eligible for in-situ land exchange and the Government may resume the other parts of its lands for public use by payment of cash compensation. The Group has previously applied for in-situ land exchange for two separate land lots in Fanling North and Kwu Tung, which have just been accepted by the Government for further review. The two sites are expected to provide total developable gross floor areas of approximately 600,000 square feet and 340,000 square feet respectively, against their respective site areas of 172,000 square feet and 45,000 square feet. Applications in respect of three other land lots in Fanling North, with respective site areas of 228,000 square feet, 241,000 square feet and 240,000 square feet, were also submitted for in-situ land change. The above four land lots in Fanling North are expected to provide an aggregate commercial gross floor area of 440,000 square feet and residential gross floor area of 3.64 million square feet approximately. Developable areas for these sites are subject to finalisation of land premium.

According to the aforementioned "North East New Territories New Development Areas Planning and Engineering Study", the region at Ping Che/Ta Kwu Ling will be re-planned in response to the "2013 Policy Address" which proposed an initiative to review the development potential of New Territories North, including new opportunities brought about by the new railway infrastructure. In January 2014, the Government commenced its "Preliminary Feasibility Study on Developing the New Territories North" on a study area of about 5,300 hectares. In September 2014, the Government announced the "Railway Development Strategy", including its long-term extension plan to further extend the railway line to Kwu Tung and Ping Che. The Group has a land holding of about 1.34 million square feet in Ping Che/Ta Kwu Ling which is embodied in the Master Layout Plan of the original "North East New Territories New Development Areas Planning and Engineering Study". In addition, the Group has about 1.09 million square feet of land in the adjacent areas, making a total of about 2.43 million square feet in the region. In order to increase land supply for housing, the Government formulated the Preliminary Outline Development Plan for "Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation" and launched its Stage 2 Community Engagement. It also released the "Land Use Review for Kam Tin South and Pat Heung". The Group holds certain pieces of land in these Study Areas.

As for "Hung Shui Kiu New Development Area Planning and Engineering Study", the Group holds a total land area of approximately 6.35 million square feet in this location, which covers an area of about 714 hectares. Under the Preliminary Outline Development Plan, it was proposed to accommodate a new town with a population of about 215,000 people and 60,000 additional flats, of which about 50% are private developments. Impacts to the Group arising from these proposals are to be assessed. The Group will continue to work in line with the Government's development policies and will follow up closely on its development plans.

Besides, the development of houses cum wetland restoration project in Wo Shang Wai, Yuen Long has been approved by the Town Planning Board. With a site area of approximately 2.23 million square feet, this project will comprise about 400 houses, providing a total residential floor area of approximately 890,000 square feet. Negotiation of the land premium is now under way and project implementation is subject to the finalisation of the land premium amount with the Government.

Following the first concluded arbitration case for a commercial and residential development project at Yuen Long Town Lot No. 527 under the Pilot Scheme for Arbitration on Land Premium in late 2015, the Group agreed in principle to proceed with arbitration for another case during the year under review. However, the Group subsequently decided to accept the land premium proposed by the Lands Department, hence obviating the need for arbitration. The relevant project, being at Yuen Long Town Lot No. 524 and having a site area of 48,933 square feet, will provide a total attributable residential floor area of 135,324 square feet. The land premium amounted to HK$298.38 million.

The Pilot Scheme for Arbitration on Land Premium was introduced by the Government in October 2014 for a trial period of two years, with an aim to facilitate early conclusion of land premium negotiations and expedite land supply for housing and other uses. The Government has extended the Pilot Scheme for two more years to October 2018. The Group will thus consider requesting for arbitration on its land exchange or lease modification cases when necessary.

Investment Properties

During the year under review, the Group's attributable gross rental income in Hong Kong, including the attributable contribution from subsidiaries, associates and joint ventures, increased by 2% to HK$6,540 million. The attributable pre-tax net rental income, including the attributable contribution from subsidiaries, associates and joint ventures, was HK$5,132 million, representing a growth of 4% over the previous year. Included therein is attributable gross rental income of HK$1,918 million (2015: HK$1,865 million) contributed from the Group's attributable 40.77% interest in The International Finance Centre ("ifc") project. At the end of December 2016, the leasing rate for the Group's core rental properties was 97%. Besides, the Group held about 9,000 car parking bays, providing additional rental income.

As at 31 December 2016, the Group held a total attributable gross floor area of approximately 8.8 million square feet of completed investment properties in Hong Kong:

By type:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Shopping arcade or retail	4.6	52
Office	3.4	38
Industrial/Office	0.4	5
Residential and hotel apartment	0.4	5
Total:	**8.8**	**100**

By geographical area:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Hong Kong Island	2.2	25
Kowloon	2.8	32
New Territories	3.8	43
Total:	**8.8**	**100**

According to the information released by The Census and Statistics Department, the value of total retail sales in Hong Kong for 2016 decreased by 8.1% compared with a year earlier amid soft inbound tourist spending. However, all the Group's major shopping malls (except those under renovation or realignment of tenant mix) were able to record nearly full occupancy at the end of December 2016 with moderate rental growth. This continuity was attributable to the Group's effective promotional activities and asset enhancement initiatives. "Metro City Phase II" in Tseung Kwan O, for instance, successfully fostered closer interaction between shoppers and tenants after the launch of a customer loyalty programme, whilst "KOLOUR•Tsuen Wan I" offered a fresh and vibrant shopping experience to customers following the completion of its reconfiguration. For the Group's other regional shopping malls such as "Shatin Centre" and "Fanling Centre", renovations are also in progress to further enhance their competitiveness. An upcoming addition will be a 40,000-square foot retail mall beneath the residential project "Eltanin•Square Mile". Upon its scheduled opening by the end of 2017, the mall will further expand the Group's portfolio of shopping arcade or retail space.

Benefitting from a combination of limited new supply and sustained demand from mainland companies, the office leasing market remained buoyant in Hong Kong. The Group's office premises are well diversified in both specifications and locations, meeting the different needs of various businesses. During the year under review, the Group's premium office buildings in the core areas, such as "ifc" in Central, "AIA Tower" in North Point and "FWD Financial Centre" in Sheung Wan, all performed well. Meanwhile, the Group's cluster of office and industrial/office premises in Kowloon East, including "Manulife Financial Centre", "AIA Financial Centre", "78 Hung To Road" and "Bamboos Centre", also recorded satisfactory rental reversions for most of the renewals and new leases. Besides, a prime waterfront site at 18 King Wah Road, North Point is being developed into a 25-storey Grade-A office tower with a total gross floor area of about 330,000 square feet. Designed by the world-renowned Cesar Pelli, it is poised to be another metropolitan landmark upon its scheduled completion in mid-2017. Pre-leasing marketing has been encouraging, with many multinational corporations and mainland enterprises enquiring about the development. Together with its neighbouring 510,000-square-foot "AIA Tower" which is undergoing extensive facility upgrades, as well as the impending redevelopment of "Newton Hotel Hong Kong" into a 140,000-square-foot Grade-A office tower, a business hub comprising about one million square feet of premium office space will emerge in North Point, reinforcing the Group's leading position in that area.

Hotel Operations

With the falling visitor arrivals in recent years, Hong Kong's hotel industry has been operating under difficult conditions. In order to improve the yield of the Group's assets, "Newton Hotel Hong Kong" ceased operating in 2015 and is being redeveloped into an office building. Furthermore, the Group's remaining two Newton hotels, namely, "Newton Place Hotel" in Kwun Tong and "Newton Inn" in North Point, were sold in February 2017 at about HK$2,248 million (subject to adjustment) and HK$1,000 million (subject to adjustment) respectively. Completion of the disposal of "Newton Place Hotel" is expected to take place in October 2017, whilst the completion of the disposal of "Newton Inn" shall take place on the date falling on the expiry of two months after all the conditions precedent are fulfilled (but no later than 17 August 2017).

As the city's hospitality leader, "The Four Seasons Hotel Hong Kong" continued to perform well with satisfactory occupancy and room rates. It was named by Forbes Travel Guide 2016 as one of the finest 5-star Properties in the World, whilst its Lung King Heen restaurant also received the top 3-star honour in the Michelin Guide to Hong Kong and Macau 2017.

Construction

The Group is committed to building excellence in all its property developments. "Double Cove" achieved the top honour of Grand Award Winner in the Hong Kong Residential (Multiple Buildings) Category of the Quality Building Award 2016. This biennial award is strictly accredited by a panel of judges drawn from nine major professional organisations, making this industry honour one of unrivalled credibility and prestige. Meanwhile, the outstanding craftsmanship of the newly-completed urban redevelopment projects, "The Hemispheres" and "High One", were highly applauded by Hong Kong Professional Building Inspection Academy and local media organisations upon their quality inspections. Besides, the Grade-A office development at 18 King Wah Road, North Point also won the top Regional Platinum Prize in the first Asia Pacific Intelligence Green Building Alliance Award.

Teamwork and meticulous planning throughout the construction process contribute to the Group's remarkable success. For instance, energy-saving and green features recommended by the Leadership in Energy and Environmental Design (LEED) and Building Environmental Assessment Method (BEAM) Plus rating systems are adopted in the Group's projects. In addition to the use of self-developed pre-fabricated building components, the Group also self-contracted for the foundation piling works of its development projects and participated in the manufacturing of glass curtain walls, with the aim to expedite the construction process and minimise disruption to neighbourhoods. All these measures help improve quality and cost efficiency by reducing construction waste and manpower. Furthermore, with a large number of projects under development, the Group has implemented a series of measures, such as bulk purchases of building materials and outsourcing to more well-qualified sub-contractors, to further reduce construction costs by economies of scale.

One of the Group's utmost priorities is the site safety of its workforce. As a result of its focus on preparedness and training, the Group's construction accident rate is significantly lower than the industry average in Hong Kong. Numerous accolades, including "The Considerate Contractors Site Award", "Proactive Safety Award" and "Safety Merit Award", were received during the year under review in recognition of the Group's unwavering commitment to site safety.

The following development projects in Hong Kong were completed during the year under review:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	Attributable gross floor area (sq. ft.)
1.	High One 571 Fuk Wa Street Cheung Sha Wan	7,560	63,788	Commercial/ Residential	100.00	63,788
2.	Double Cove Grandview (Double Cove – Phase 4) 8 Wu Kai Sha Road Ma On Shan	194,532	387,166	Residential	59.00	228,428
3.	Double Cove Summit (Double Cove – Phase 5) 8 Wu Kai Sha Road Ma On Shan	49,648	332,956	Residential	59.00	196,444
4.	H・Bonaire 68 Main Street Ap Lei Chau	7,953	65,761	Commercial/ Residential	100.00	65,761
5.	Jones Hive 8 Jones Street Causeway Bay	6,529	65,267	Residential	79.762	52,058
					Total:	**606,479**

In mainland China, the Group's Construction Department monitors all the key areas, such as tender evaluation, contract execution, development progress and product quality, throughout the construction process and gauges them closely against a set of pre-determined standards. It also provides timely feedback, aiming at achieving building quality excellence and consistency for all of the Group's products.

Property Management

The Group's property management companies, namely, Hang Yick Properties Management Limited, Well Born Real Estate Management Limited and Goodwill Management Limited, manage in total over 80,000 apartments and industrial/commercial units, 10 million square feet of shopping and office space, as well as 20,000 car parking spaces in Hong Kong and mainland China.

The Group places emphasis on property management and customer services for all of its property developments. The property management subsidiaries strive to provide comfortable and hassle-free living for residents and tenants through comprehensive customer support, including cleaning and security services as well as an array of value-added services such as landscaping and other home convenience assistance. The Group's commitment to service excellence has also been extended to its property developments in mainland China. "Hengbao Huating" in Guangzhou received the designation as "Leading Enterprise for Maintaining Stability and Social Order in Duobao District 2015", in addition to winning the accolade of "Guangdong Province Enterprise of Observing Contract and Valuing Credit" for four consecutive years.

In keeping with the Group's commitment on "HOME. WHERE LOVE RESIDES.", these property management subsidiaries are always on the frontline to offer care to the public at large, with the intention of creating a better living environment for the people in Hong Kong. Following the success of the preceding "Year of Senior", the Property Management team launched "The Year of Youth" so as to raise public awareness of the holistic development of the next generation. Their volunteer team won the "Highest Service Hour Award" championship in December 2016, setting a new record by achieving this top honour for the eleventh year.

Mainland China

In the first half of 2016, "destocking" was the main theme in the real estate sector and the Central Government promulgated a series of relaxation policies, such as the lowering of down-payment proportion, alleviation of tax charges as well as easing of credit. Certain cities also rolled out stimulus measures, in accordance with their own conditions, to tackle excessive stock. Boosted by an easing monetary condition and competitive bids in land auctions, housing prices in the popular cities surged rapidly. In the latter half of the year, the adoption of differentiated policies became more evident. On the one hand, control measures such as restrictions on property purchases and lending were implemented in popular cities along with other regulatory measures to again curb speculative demand from investors. On the other hand, "destocking" strategies persisted in the third or fourth-tier cities, improving the market condition from both demand and supply perspectives.

Property Sales

As the property market regained momentum, the Group during the year achieved attributable contracted sales of development properties of approximately HK$8,472 million in value and 7.9 million square feet in attributable gross floor area, representing a year-on-year increase of 16% and 8% respectively. "Riverside Park" and "Henderson • CIFI City" in Suzhou, "The Arch of Triumph" in Changsha, "Amber Garden" and "Henderson • CIFI Centre" in Shanghai, "Emerald Valley" in Nanjing, "Grand Lakeview" in Yixing, as well as "La Botanica" in Xian were the major revenue contributors.

The following development projects were completed during the year under review:

Project name		**Type of development**	**Group's interest (%)**	**Attributable gross floor area (million sq. ft.)**
1.	Phase 2, Emerald Valley, Nanjing	Residential	100	0.6
2.	Phase 3A, The Arch of Triumph, Changsha	Residential	100	1.3
3.	Phase 2B, Xuzhou Lakeview Development, Xuzhou	Residential	100	1.2
4.	Phase F1F2-1A and 1B, Riverside Park, Suzhou	Commercial	100	1.1
5.	Part of Phase 4-R1 and 2R2, La Botanica, Xian	Commercial/ Residential	50	1.7
6.	Phase 2C, Palatial Crest, Xian	Residential	100	0.6
7.	Phase 1 of Site B1, Grand Lakeview, Yixing	Residential	100	1.6
8.	Phase 2, Golden Riverside, Shenyang	Residential	100	1.1
9.	Phase 2, Arc De Triomphe, Anshan	Residential	100	1.3
10.	Amber Garden, Shanghai	Residential	35	0.4
11.	Phase 3, Henderson • CIFI Centre, Shanghai	Office	50	0.2
			Total:	**11.1**

In order to improve its performance from property development, the Group enhanced its co-operation with mainland property developers so that it could contribute its experience in property development, brand recognition and financial know-how, whilst mainland developers could expedite the development progress with lower construction costs. During the year under review, the Group stepped up its co-operation with CIFI Holdings (Group) Co. Ltd. ("CIFI") and pursuant to the agreements signed in September and December 2016, CIFI will participate in the development of the Group's existing projects located in Suzhou, Yixing and Changsha.

At 31 December 2016, the Group had approximately 3.7 million square feet in attributable gross floor area of completed property stock. The Group also held a development land bank in 14 cities with a total attributable gross floor area of about 91.0 million square feet, of which around 75% were planned for residential development.

Land bank under development or held for future development

		Group's share of developable gross floor area* (million sq. ft.)
Prime cities		
Shanghai		2.1
Guangzhou		14.5
	Sub-total:	**16.6**
Second-tier cities		
Anshan		16.3
Changsha		6.1
Chengdu		3.6
Dalian		9.1
Fuzhou		1.1
Nanjing		0.6
Shenyang		9.5
Suzhou		5.4
Tieling		8.7
Xian		10.7
Xuzhou		0.6
Yixing		2.7
	Sub-total:	**74.4**
	Total:	**91.0**

** Excluding basement areas and car parks*

Usage of development land bank

		Estimated developable gross floor area (million sq. ft.)	Percentage (%)
Residential		68.6	75
Commercial		11.0	12
Office		9.7	11
Others (including clubhouses, schools and community facilities)		1.7	2
	Total:	**91.0**	**100**

Investment Properties

The Group actively targets prime commercial sites designated for office usage in particular with good development potential in the core areas of major cities with the intention for them to be added to its rental portfolio for the purpose of long-term investment. In January 2017, the Group replenished its core rental property land bank and acquired an office/commercial site in the southern extension of Huangpu River, Xuhui District, Shanghai. With a total developable area of approximately 960,000 square feet, it is planned to be developed into an office tower with a gross floor area of about 860,000 square feet, plus commercial space with a gross floor area of about 100,000 square feet. Together with an adjacent land lot acquired in July 2015, this will become a large-scale integrated development.

The Group decided to dispose of certain non-core investment properties, particularly those projects completed earlier with certain portions already sold. By the end of 2016, the Group entered into an agreement for the disposal of certain non-core properties, namely the "Henderson Centre" shopping mall and its car parking spaces in Beijing, at about HK$3,261 million (subject to adjustment). The disposal was completed in February 2017. After the disposal of the "Henderson Centre" shopping mall and its car parking spaces in Beijing, the Group had at the end of December 2016 about 6.4 million square feet of completed investment properties in mainland China. Despite the 6% year-on-year depreciation of the Renminbi against the Hong Kong Dollar, the Group's attributable gross rental income dropped by 3% to HK$1,700 million, whilst its attributable pre-tax net rental income decreased by 0.3% to HK$1,349 million during the year under review.

In Beijing, "World Financial Centre'' is an international Grade-A office complex in the Chaoyang Commercial Business District and its leasing rate was 96% by the year end of 2016, with many leading multinational corporations and financial institutions such as Marubeni (China), CITIC Financial Leasing and State Street Bank newly committed as its tenants.

In Shanghai, "Henderson Metropolitan" atop Nanjing Road East subway station won the "Excellent Property Management Showcase" award during the year under review. Its shopping mall, which was over 98% let at the end of December 2016, is planning to house more sports retailers and gourmet restaurants so as to enrich the shopping experience for its customers and boost business turnover for its retail tenants. The office tower of "Henderson 688" at Nanjing Road West also performed well with its leasing rate at 98% at the end of December 2016. "Grand Gateway II'' atop the Xujiahui subway station was over 90% let at the year end of 2016. "Greentech Tower" and "Centro" near Shanghai Railway Station performed satisfactorily and their leasing rates were 98% and 97% respectively at the year end of 2016.

In Guangzhou, "Hengbao Plaza" atop the Changshou Road subway station is the retail hotspot in town, boasting a wide array of fashion boutiques and dining outlets. The renowned fashion brand "Uniqlo" opened for business in the second quarter of 2016, whilst "MaxValu", the supermarket subsidiary of AEON Company Limited of Japan, is also set to open in 2017. The Group will continue to bring in leading brands and realign the tenant mix so as to further reinforce the market position of this mall.

With its properties in many major cities on the mainland, the Group is considered by many retailers as the preferred partner for launching nationwide promotional programmes. For instance, "Wooderful life", a famous music box maker from Taiwan, opened pop-up stores in "World Financial Centre" in Beijing, "Hengbao Plaza" in Guangzhou, as well as "Henderson Metropolitan" in Shanghai, selling its exclusive music boxes and launching various workshops during the year under review. This promotional campaign received overwhelming responses, followed by extensive publicity from the media.

The Group is committed to optimising its mainland rental portfolio in future. The "Xu Hui Riverside Project" in Shanghai, which was acquired in July 2015, will be developed as a landmark comprising a Grade-A office building with an aggregate gross floor area of approximately 1,800,000 square feet and a shopping mall with an aggregate gross floor area of approximately 200,000 square feet. Together with its neighbouring office/commercial site, which was purchased in January 2017 with a total developable area of approximately 960,000 square feet, this large-scale investment property will become a bright spot in Xu Hui Riverside Development Area upon completion. In the Yuexiu District of Guangzhou, "Haizhu Plaza Station Project" will be another iconic integrated development, sitting on the banks of the Pearl River with a future direct connection to two subway lines. Construction of this development has already commenced. It will boast two office towers with gross floor areas totalling 900,000 square feet and a shopping mall with a gross floor area of about 800,000 square feet.

Henderson Investment Limited ("HIL")

HIL's profit attributable to equity shareholders for the year ended 31 December 2016 amounted to HK$100 million. Profit attributable to equity shareholders for the previous year, which included a one-off gain of HK$355 million arising from the final arbitral award in relation to the toll fee collection right of Hangzhou Qianjiang Third Bridge, was HK$449 million. Excluding the financial effects of this one-off item, the adjusted profit attributable to equity shareholders for the previous year amounted to HK$94 million. HIL's profit attributable to equity shareholders of HK$100 million for the year ended 31 December 2016 represented an increase of HK$6 million, or 6%, over the adjusted profit attributable to equity shareholders for the previous year.

HIL operates a department store business under the name of "Citistore" in six densely-populated residential districts (namely, Tsuen Wan, Yuen Long, Ma On Shan, Tseung Kwan O, Tai Kok Tsui and Tuen Mun). The stores aim to provide customers with "one-stop" shopping convenience through a vast selection of merchandise at reasonable and competitive prices. In order to provide customers with a better and more comfortable shopping experience, in January 2017 the Ma On Shan Citistore was relocated to operate at another spot in the same shopping mall.

HIL launched various initiatives to raise the attractiveness of its department stores, as well as the market awareness of the Citistore brand. For instance, "CITIZEN'S EDIT", a fashion concept store and 'CTBeatZ", a cultural and creative platform, were both introduced in its Ma On Shan store, offering a fresh shopping experience to customers. By sourcing branded apparel from around the world, "CITIZEN'S EDIT" satisfied the needs of young, style-savvy urbanites with limited editions of signature items. 'CTBeatZ" organised various creative events and workshops (ranging from wine tasting to food and handicrafts production) thereby enriching their customers' product knowledge and lifestyle experience. In addition, Citistore continued to leverage the power of social media platforms (such as Facebook and Instagram) to showcase and promote its products and brands, whilst an online shopping platform, "oncitinet", was also unveiled in April 2016 so as to expand the brand's market coverage and provide greater flexibility for its shoppers through diversified consumption channels.

Affected by the declining inbound tourist spending and dwindling local consumer sentiment, the value of total retail sales in Hong Kong for 2016 decreased by 8.1% compared with a year earlier. Nevertheless, by offering affordable household necessities, "Citistore" recorded only a slight year-on-year decrease of 0.7% in total sales proceeds (which were derived from the sales of own goods, as well as from concessionaire and consignment sales) compared with the previous year.

During the year under review, Citistore's sales of own goods decreased by 2% to HK$434 million with the gross margin slightly lowered from 36% to 35% due to intensified price competition in the retail market. The Household & Toys category contributed approximately 52% of the total revenue from sales of goods, the Apparels category contributed approximately 33% and the balance of approximately 15% came from the categories of Food and Cosmetics.

Citistore's concessionaire sales are conducted by licensing portions of shop spaces to its concessionaires to use for their own counters to sell their products, whilst consignment sales comprise the sales of consignors' own products on or in designated shelves, areas or spaces. Citistore charges these concessionaire and consignment counters on the basis of revenue sharing or basic rent (if any), whichever is higher, as its rental income. During the year under review, the total rental income derived from these concessionaire and consignment counters remained stable at HK$430 million, despite a slight decrease of 0.3% to HK$1,446 million in the total sales proceeds generated from these counters.

In view of a decline in aggregate sales proceeds, Citistore maintained its business performance by strengthening its controls over all expenditure. As a result, Citistore recorded a decrease in its total operating expenses even after taking into account the Ma On Shan premises relocation expenses during the year under review. The after-tax profit contribution only decreased by HK$6 million, or 6% to HK$97 million.

Overall, after taking into account the interest income generated from the cash proceeds regarding the compensation payment received in 2015 and the overheads of its head office, HIL's profit attributable to equity shareholders from continuing operation for the year under review amounted to HK$100 million, representing an increase of HK$6 million or 6% over that of HK$94 million (after excluding the above-mentioned one-off gain) for the previous year.

Looking ahead, competition among retailers is expected to intensify in Hong Kong. Following the recent successful launch of "CITIZEN'S EDIT" and 'CTBeatZ", HIL will roll out more initiatives to improve the overall shopping environment of its stores and offer more quality products to its customers so as to meet their discerning needs. HIL will also continue to step up its promotional efforts and cost controls, thereby enabling the sustainable business growth of Citistore.

Associated Companies

The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

Profit after taxation attributable to shareholders of Hong Kong and China Gas for the year increased by 0.53% to HK$7,341 million, an increase of HK$39 million compared to 2015. During the year under review, this group invested HK$6,257 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and mainland China.

TOWN GAS BUSINESS IN HONG KONG

Compared to 2015, total volume of gas sales in Hong Kong for 2016 increased by 1.4% to 28,814 million MJ while appliance sales revenue increased by 24.9% to HK$1,634 million with a total of 275,361 sets sold, mainly benefitting from newly completed residential projects. As at the end of 2016, the number of customers was 1,859,414, an increase of 20,153 compared to 2015, slightly up by 1.1%.

UTILITY BUSINESSES IN MAINLAND CHINA

As at the end of 2016, Hong Kong and China Gas held approximately 64.12% of the total issued shares of Towngas China Company Limited ("Towngas China"; stock code: 1083). Towngas China recorded good growth in profit after taxation attributable to its shareholders, amounting to HK$974 million in 2016, an increase of approximately 21% over 2015.

Towngas China added two new distributed energy projects to its portfolio in 2016, one based in Sichuan province, and the other known as Towngas China Energy Investment (Shenzhen) Limited. During 2016, Moody's Investors Service maintained its issuer credit rating on Towngas China as "Baa1" with a "stable" outlook. Standard & Poor's Ratings Services also upheld their "BBB+" long-term corporate credit rating and "cnA+" long-term Greater China regional scale credit rating on Towngas China with a "stable" outlook.

As at the end of 2016, inclusive of Towngas China, Hong Kong and China Gas had a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2016 was approximately 17,140 million cubic metres, an increase of 10.3% over 2015. As at the end of 2016, Hong Kong and China Gas's mainland gas customers stood at approximately 23.1 million, an increase of 11% over 2015.

Anhui Province Natural Gas Development Co. Ltd., an associated company of Hong Kong and China Gas, was listed on the Shanghai Stock Exchange on 10 January 2017. As a large-scale integrated operator, its core business is the construction and operation of long-haul natural gas pipelines in Anhui province, alongside a downstream distribution business.

Construction of that group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is in progress. Upon completion, this facility will be the first of its kind developed by a city-gas enterprise on the mainland. Total storage capacity will be approximately 460 million standard cubic metres. Completion of phase one of this project, with a storage capacity of 150 million standard cubic metres, is expected during the second quarter of 2017.

Hong Kong and China Gas's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well with 109 stations now spread across different provinces to date. Apart from this, this group is also proactively developing refilling projects for marine vessels and is currently investing in a joint venture project, with six refilling sites, for barges along the Yangtze River in Jiangsu province. This is the country's first, and largest project in terms of number of refilling sites, along this river. In September 2013, the joint venture constructed and put into service the country's first floating LNG refilling station barge.

Hong Kong and China Gas has entered into the mainland water market under the brand name "Hua Yan Water" for over 11 years and currently invests in, and operates, six water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. In addition, this group is constructing a plant in Suzhou Industrial Park to handle 500 tonnes of food waste, green waste and landfill leachate daily for conversion into natural gas, oil products, solid fuel and fertilizers, under the "Hua Yan Water" brand; commissioning is expected in the third quarter of 2018 and will be its first project converting waste into high-value products.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

Hong Kong and China Gas's development of emerging environmentally-friendly energy businesses in mainland China, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), is progressing steadily.

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – all operated smoothly in 2016. With a total turnover of approximately 6.2 million tonnes in 2016, ECO's aviation fuel facility contributed to ECO's steady profit growth. ECO's LPG vehicular refilling station business had a steady operation and satisfactory profit in 2016. ECO's landfill gas project in the North East New Territories, after operating for several years, has been generating noticeable environmental benefits. ECO's development of a South East New Territories landfill gas utilisation project is also progressing smoothly, with commissioning expected to start in the first half of 2017.

With international oil prices creeping low during most of 2016, annual output of ECO's oilfield project in Thailand fell to 1.37 million barrels, causing a significant impact on profit.

ECO's networks of natural gas refilling stations are gradually taking shape in provinces and autonomous regions including Shaanxi, Inner Mongolia, Ningxia, Shandong, Shanxi, Jiangsu, Henan and Liaoning. All in all, ECO currently has 62 refilling stations in operation, under construction or at the planning stage.

The plant located in Zhangjiagang city, Jiangsu province can upgrade approximately 220,000 tonnes of palm acid oil, a low-quality inedible bio-oil, into high-value oleic acids and other chemical products each year. Construction is expected to be completed and ready for trial production by the third quarter of 2017. In addition, construction of a project in Xuzhou city, Jiangsu province to produce LNG by methanation of coke oven gas has been largely completed; trial production is expected to commence in the first half of 2017.

ECO's research and development team has successfully developed a world leading approach on pyrolysis and hydrolysis technologies, which can convert agricultural and forestry waste into high-value syngas and green block chemicals, such as furfural and levulinic acid. To this end, ECO has launched a pilot project in Hebei province with trial production expected to start in the second half of 2017.

ECO's coal chemical project in Ordos city, Inner Mongolia Autonomous Region, operated smoothly during 2016 yielding over 310,000 tonnes of methanol. Works to upgrade and optimise the facility to convert methanol into natural gasoline are progressing as planned. Additionally, ECO has launched a new project to convert 40% of the coal-based syngas into 120,000 tonnes of higher-valued ethylene glycol, with trial production targeted to start before the end of 2017.

Overall, inclusive of projects of Towngas China, Hong Kong and China Gas had 241 projects on the mainland, as at the end of 2016, 19 more than at the end of 2015, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

FINANCING PROGRAMMES

Hong Kong and China Gas established a medium term note programme in 2009. Medium term notes totalling HK$1,328 million, with maturity ranging from 10 to 12 years, were issued during 2016. At 31 December 2016, the amount of medium term notes issued had reached HK$11,900 million with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.6% and an average tenor of 15.5 years.

***Hong Kong Ferry (Holdings) Company Limited* (*"Hong Kong Ferry"*)**

Hong Kong Ferry's consolidated profit after taxation for the year ended 31 December 2016 amounted to approximately HK$237 million, an increase of 23% as compared with the profit after taxation of HK$193 million last year. During the year under review, its profit was mainly derived from the sale of the residential units of Metro6, Green Code and Shining Heights.

During 2016, the profit of Hong Kong Ferry from the sale of Metro6, Green Code and Shining Heights amounted to HK$129 million. The numbers of unsold units of Metro6 and Green Code were 6 and 7 respectively at the year end. The sale of Harbour Park was satisfactory and 145 units were sold during the year, representing 90% of the total number of units.

The gross rental income from the commercial arcades of Hong Kong Ferry amounted to approximately HK$89 million. As at the end of 2016, the occupancy rate of commercial podium of Metro6 was 97% and the commercial arcades of Shining Heights and The Spectacle were fully let. The occupancy rate of commercial arcades of Metro Harbour View was 98%. The committed tenancy of Green Code Plaza was 84%.

Hong Kong Ferry through its 50%/50% joint venture with Empire Group Holdings Limited owned by Dr Walter Kwok Ping Sheung successfully acquired the land for residential use at Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, for HK$2,708.8 million in August last year. It faces Gold Coast at the front and Harrow International School Hong Kong at the back. The land is of a site area of 165,766 square feet and a gross floor area of approximately 663,000 square feet. The accommodation value of approximately HK$4,100 per square foot is relatively low as compared with the subsequent tender of land in the vicinity. The preliminary design and preparation works of the project are in progress to build approximately 1,800 condominiums by phases in six years.

During the year under review, the Ferry, Shipyard and Related Operations recorded a profit of HK$14 million, similar to that of last year.

During the year under review, the Travel Operation recorded a loss of HK$7.9 million. But Hong Kong Ferry recorded a one-off profit of HK$4.6 million upon disposal of the Travel Operation to Miramar Travel Limited in October 2016.

During the year, a loss of HK$7 million in Securities Investment was recorded mainly due to the impairment loss on securities investment in excess of the income from and disposal gain of securities.

The proceeds from the sale of the remaining units of Metro6 and Green Code will be the main source of income of Hong Kong Ferry in 2017.

Miramar Hotel and Investment Company, Limited ("Miramar")

Miramar's revenue for the financial year ended 31 December 2016 amounted to HK$3,118 million, representing a slight decrease of 4% compared to HK$3,251 million for the last financial year. Miramar's investment property portfolio recorded a net increase in fair value of HK$723 million to stand at HK$13,402 million, representing an increase of 6% as compared to that in 2015. Benefitting from a net increase in the fair value of its investment properties, the profit attributable to shareholders increased by 4% year-on-year to approximately HK$1,277 million. Excluding the effects of one-off gain of the sale of No.6 Knutsford Terrace and the net increase in the fair value of its investment properties, the underlying profit attributable to shareholders decreased by 4% to approximately HK$580 million.

Miramar's hotels and serviced apartments recorded a revenue of HK$638 million, and EBITDA (earnings before interest, tax, depreciation and amortisation) amounted to HK$228 million, representing a decline of approximately 5%. The Mira Hong Kong and Mira Moon, which are both members of the Design Hotels™ network, participated in the Starwood Preferred Guest® (SPG®) program, a world-renowned hotel and resort programme. This has successfully expanded their global reach and enriched their customer bases with overseas business and high-end customers. It has also increased the renown of this group's hotels in the international market, which helped enhance its customer mix and elevated overall business performance.

For the 492-room The Mira Hong Kong, its average occupancy and room rates slightly dropped in 2016. The management proactively review its operational processes to reduce overlapping procedures and streamline its manpower deployment, which successfully reduced its manpower costs by 3%. For the 91-room Mira Moon, its average occupancy and room rates remained stable in 2016 compared to the previous year, while its food and beverage business achieved satisfactory growth. Located in the Gubei residential area of the Hongqiao district in Shanghai, Miramar Apartment's operations remained satisfactory. During the year, other than those units undergoing refurnishing and tenant changes, the apartments were continually fully occupied.

Miramar's property rental business remained solid in 2016, with a revenue of HK$829 million and an EBITDA of HK$724 million, which were largely flat compared to the previous year. Miramar Tower and Miramar Shopping Centre are its key rental properties with a total of 1,000,000 square feet of floor area. The Mira Hong Kong, its flagship hotel, sits adjacent to these properties and provides excellent conference venues.

Miramar Tower is an 18-storey, Grade-A office building with a floor area of approximately 38,000 square feet per floor. During the year, it successfully attracted more semi-retail tenants, which now account for over 20% of the office space. Both the per-square-foot rent and occupancy rates for Miramar Shopping Centre, which is a 500,000-square-foot shopping hub, have remained at levels similar to last year. Mira Mall features 4 storeys of retail spaces. During the year, several promotional events aimed at drawing crowds were launched, including the Kirin Ichiban Summer Feast and Hong Kong's first-ever shopping mall music festival, which incorporated live music performances and an original handcraft fair; these helped heat up the mall's feverish summer atmosphere. An interactive Christmas game also brought a special Scandinavian ambiance to the shopping mall during the Christmas shopping season. Thanks to these promotional events, its retail spaces saw a rise of 8% in their average yearly pedestrian traffic, which boosted tenants' sales revenue. In 2017, Miramar will continue to integrate Miramar Shopping Centre and Mira Mall, affording customers a more comprehensive shopping and leisure experience.

Miramar recorded a revenue of HK$448 million from its food and beverage business, approximately the same as last year, with EBITDA declined to HK$42 million. For its restaurants, customer visits decreased slightly, while consumption per capita remained steady. Its Chinese restaurants like Cuisine Cuisine and Tsui Hang Village showed remarkable performance. Miramar also launched traditional delicacies in 2016, such as glutinous rice cakes and moon cakes, which were adored by customers.

Impeded by Hong Kong's slowing economy, its travel business showed unsatisfactory performance in the first half of the year. However, the second half saw a turnaround. The revenue was HK$1,198 million for the whole year. The EBITDA declined to HK$30 million. Miramar completed the acquisition of HYFCO Travel Agency Limited in 2016, which brought in a revenue of HK$23 million.

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles. At 31 December 2016, net debt (including the shareholder's loan totalling HK$316 million (31 December 2015: HK$1,185 million)) amounted to HK$33,434 million (31 December 2015: HK$40,317 million) giving rise to a financial gearing ratio of 12.7% (31 December 2015: 16.0%).

During the financial year, substantial increase in cash inflow was recorded resulting from sales and pre-sales of development projects as well as en-bloc sale of a sizeable investment property of the Group. The Group repaid a HK$10,000 million five-year syndicated term loan / revolving credit facility and also medium term notes of four-year and five-year for an aggregate amount of S$400 million.

Furthermore, since the beginning of 2017, the Group has repaid the five-year unrated public bonds for a total amount of US$700 million. A HK$6,900 million four-year syndicated term loan / revolving credit facility was also fully prepaid as the Group increased more bi-lateral revolving credit banking facilities.

In light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past years, the Group has concluded interest rate swap contracts for certain medium and long-term periods. Such contracts were entered into for the purpose of converting part of the Group's borrowings from floating interest rates into fixed interest rates. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

PROSPECTS

The global economy is now fraught with many uncertainties. These include the impacts on global trade and interest rate movement brought about by the future policies of the new president of the United States, as well as the prospects of the United Kingdom after Brexit. Hong Kong, however, is set to draw persistent liquidity flow into the territory on the back of its position as a comprehensive international financial centre and its relatively stable currency. This, coupled with the solid housing demand from local residents, should hopefully lend support to Hong Kong's property market.

As regards "**property sales**", following the recent successful launch of "Eden Manor" and "Mega Cube", the Group plans to embark on sales launches of four residential projects and two commercial/office developments in this financial year. Together with the unsold stocks, a total of about 2,600 residential units and 600,000 square feet of quality commercial/office space in Hong Kong will be available for sale in 2017. Meanwhile, there are currently 39 urban redevelopment projects with 80% to 100% of their ownership acquired, representing about 3.8 million square feet in total attributable gross floor area, which are expected to be available for sale or leasing in 2018 or beyond. The Group also has a reserve of New Territories land of about 44.8 million square feet, the largest holding among all property developers in Hong Kong. The Group's efforts to replenish its land bank on all fronts in the past has yielded a good harvest and it has now managed to secure a stable supply of land for property development over the long term, allowing the sustainable growth of its property sales business.

Turning to mainland China, it is anticipated that the two basic principles of "destocking" and "facilitating the sustainable and healthy development of the property market" will remain unchanged in 2017. Notwithstanding that the market regulatory measures targeting the first and second tier popular cities will persist, the property markets of these cities will show a steady development in light of limited new housing supply. The Group will continue to look for development projects in the first-tier cities, as well as those second-tier cities with high growth potential, so as to expand its land bank. Co-operation with local property developers will also be enhanced so as to propel the Group's business development.

Following the completion of the disposal of "Golden Centre" at HK$4,368 million in December 2016, a number of other non-core investment properties and hotels (including the shopping mall and car parking spaces at "Henderson Centre" in Beijing, as well as the shops at "Fairview Height" in Mid-levels and two hotel properties, namely, "Newton Place Hotel" in Kwun Tong and "Newton Inn" in North Point, all in Hong Kong) were sold successively in recent months. Total proceeds of about HK$7,024 million arising from such disposals are expected to be recognised in the accounts in 2017.

As regards "**rental business**", the Group's aggregate gross rental income (including the attributable contribution from subsidiaries, associates and joint ventures) amounted to HK$8,240 million during the year under review. Many sizeable rental properties are now under development in both Hong Kong and mainland China. In Hong Kong, the scheduled completion of the office development at 18 King Wah Road, North Point and the shopping mall at "Eltanin・Square Mile" in 2017 will expand the Group's rental portfolio by about 370,000 square feet to about 9.2 million square feet in attributable gross floor area. Other rental properties under development (including the commercial project at Middle Road, Tsim Sha Tsui, and the redevelopment projects at Electric Road, North Point and Johnston Road, Wanchai) are progressing well.

In mainland China, the Group at the end of December 2016 had about 6.4 million square feet of completed investment properties, whilst an office/commercial site with a total developable area of about 960,000 square feet in the southern extension of Huangpu River, Xuhui District, Shanghai was acquired in January 2017. Together with the adjacent site acquired earlier, there will be a large-scale integrated development with a total gross floor area of about 3,000,000 square feet. Another sizeable rental property, namely Haizhu Plaza Station Project in Guangzhou, is also under development.

With a continually expanding rental portfolio in both Hong Kong and mainland China, the Group's recurrent rental income will continue to grow further.

The "**associates**", namely, Hong Kong and China Gas, Miramar and Hong Kong Ferry, serve as another stable recurrent income stream to the Group. As Hong Kong's first public utility company, Hong Kong and China Gas has developed into a multi-business corporation comprising 241 projects in 26 provinces, autonomous regions and municipalities in mainland China. With a total of nearly 25 million piped-gas customers in Hong Kong and mainland China, as well as its expanding scope of businesses, its contributions to the Group are promising.

Over many years, the Group has been "sowing" by way of acquisition of a massive land bank in the New Territories and various old tenement buildings for redevelopment. Thus, the Group has built up an extensive land bank in Hong Kong for steady property development over the long term. The continually expanding rental portfolio and the investments in associated companies provide the Group with steady recurrent income streams. The Group has entered into a "harvesting phase", having built a sizeable and valuable asset portfolio and a solid foundation for future growth. "Double Cove" in Ma On Shan, boutique apartments under the "H Collection" series such as "Eltanin・Square Mile" in West Kowloon, as well as the urban redevelopment project at King Wah Road, North Point, are manifest examples of the fruitful returns.

Recently, land costs in Hong Kong have risen sharply amid intensifying competition. However, the Group has accumulated a sufficient land bank to support its property development for the years to come. With its sizeable assets, ample financial resources, as well as a shrewd and seasoned management team, the Group is well placed to capture opportunities to reach new heights and to create better results for the shareholders. Barring unforeseen circumstances, the Group's results in 2017 will have satisfactory performance.

APPRECIATION

Mr Lee King Yue and Dr Chung Shui Ming, Timpson, stepped down from their respective positions of Executive Director and Independent Non-executive Director of the Company on 2 June 2016. I would like to express my gratitude to Mr Lee King Yue and Dr Chung Shui Ming, Timpson for their support, devotion and invaluable contribution to the Company during their tenure of office, and in particular to Mr Lee King Yue's long services to the Board for 40 years. I would also like to take this opportunity to extend my appreciation to my fellow directors for their wise counsel, and to thank all our staff for their commitment and hard work throughout the year.

Lee Shau Kee
Chairman

Hong Kong, 21 March 2017

BUSINESS RESULTS

Consolidated Statement of Profit or Loss
for the year ended 31 December 2016

	Note	***2016*** **HK$ million**	*2015* HK$ million
Revenue	3	**25,568**	23,641
Direct costs		**(14,702)**	(12,669)
		10,866	10,972
Other revenue	4	**496**	450
Other net income	5	**2,283**	524
Selling and marketing expenses		**(1,212)**	(1,298)
Administrative expenses		**(1,903)**	(2,078)
Profit from operations before changes in fair value of investment properties and investment properties under development		**10,530**	8,570
Increase in fair value of investment properties and investment properties under development	6	**7,013**	7,310
Profit from operations after changes in fair value of investment properties and investment properties under development		**17,543**	15,880
Finance costs	7(a)	**(882)**	(842)
Share of profits less losses of associates		**3,891**	4,247
Share of profits less losses of joint ventures		**3,889**	4,053
Profit before taxation	7	**24,441**	23,338
Income tax	8	**(2,255)**	(1,464)
Profit for the year		**22,186**	21,874

Consolidated Statement of Profit or Loss
for the year ended 31 December 2016 (continued)

	Note	***2016*** **HK$ million**	*2015* HK$ million
Attributable to:			
Equity shareholders of the Company		**21,916**	21,326
Non-controlling interests		**270**	548
Profit for the year		**22,186**	21,874
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*10(a)*	***HK$6.03***	*HK$5.87**
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*10(b)*	***HK$3.90***	*HK$3.03**

** Adjusted for the bonus issue effected in 2016.*

Details of dividends payable to equity shareholders of the Company are set out in note 9.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016

	2016 **HK$ million**	*2015* HK$ million
Profit for the year	**22,186**	21,874
Other comprehensive income for the year (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Share of other comprehensive income of associates and joint ventures	**3**	(11)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences: net movement in the exchange reserve	**(3,577)**	(3,253)
- Cash flow hedges: net movement in the hedging reserve	**45**	(243)
- Available-for-sale securities: net movement in the fair value reserve	**68**	164
- Share of other comprehensive income of associates and joint ventures	**(1,089)**	(1,584)
Other comprehensive income for the year	**(4,550)**	(4,927)
Total comprehensive income for the year	**17,636**	16,947
Attributable to:		
Equity shareholders of the Company	**17,386**	16,461
Non-controlling interests	**250**	486
Total comprehensive income for the year	**17,636**	16,947

Consolidated Statement of Financial Position
at 31 December 2016

	Note	*At 31 December 2016* **HK$ million**	*At 31 December 2015* HK$ million
Non-current assets			
Investment properties		**131,850**	128,597
Other property, plant and equipment		**1,419**	1,692
Interest in associates		**53,936**	51,953
Interest in joint ventures		**38,728**	35,619
Derivative financial instruments		**358**	300
Other financial assets		**10,854**	8,322
Deferred tax assets		**377**	527
		237,522	227,010
Current assets			
Deposits for acquisition of properties	12	**4,608**	4,820
Inventories	13	**75,242**	81,556
Trade and other receivables	14	**10,651**	8,371
Cash held by stakeholders		**1,289**	2,733
Cash and bank balances		**22,966**	11,779
		114,756	109,259
Assets of the disposal group classified as held for sale		**3,220**	-
		117,976	109,259
Current liabilities			
Trade and other payables	15	**21,223**	19,098
Bank loans and overdrafts		**14,392**	10,216
Guaranteed notes		**5,760**	2,192
Amount due to a fellow subsidiary		**-**	8
Tax payable		**1,054**	790
		42,429	32,304
Liabilities associated with assets of the disposal group classified as held for sale		**32**	-
		42,461	32,304
Net current assets		**75,515**	76,955
Total assets less current liabilities		**313,037**	303,965

Consolidated Statement of Financial Position

at 31 December 2016 (continued)

	Note	***At 31 December 2016*** **HK$ million**	*At 31 December 2015* HK$ million
Non-current liabilities			
Bank loans		**28,086**	24,798
Guaranteed notes		**7,846**	13,705
Amount due to a fellow subsidiary		**316**	1,177
Derivative financial instruments		**906**	1,773
Deferred tax liabilities		**6,582**	6,243
		43,736	47,696
NET ASSETS		**269,301**	256,269
CAPITAL AND RESERVES			
Share capital		**52,345**	52,345
Other reserves		**211,189**	198,902
Total equity attributable to equity shareholders of the Company		**263,534**	251,247
Non-controlling interests		**5,767**	5,022
TOTAL EQUITY		**269,301**	256,269

Notes:

1 Basis of preparation

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap.622) and will deliver the financial statements for the year ended 31 December 2016 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622).

The statutory financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. The statutory financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance (Cap.622). The statutory financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the statutory financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

- financial instruments classified as available-for-sale securities;
- derivative financial instruments; and
- investment properties and investment properties under development.

Non-current assets held for sale and disposal groups are stated at the lower of carrying amount and fair value less costs to sell.

2 Changes in accounting policies

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

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

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

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

The adoption of the amendments to HKAS 7, the amendments to HKAS 12, HKFRS 9 and HKFRS 16 is unlikely to have a significant impact on the consolidated financial statements. In respect of revenue recognition on the sale of properties, the current policy is set out in the note to the consolidated financial statements. Under HKFRS 15, revenue from sale of goods or provision of services will be recognised when the customer obtains control of the promised goods or services as stipulated in the contract. Management is assessing the impact of the adoption of HKFRS 15 and based on its initial assessment, it is expected that its adoption may result in a change in the timing of recognition of revenue arising from sale of properties.

3 Revenue

Revenue of the Group represents revenue from the sale of properties, rental income, department store operation and management, hotel operation and management, and others mainly including income from construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

The major items are analysed as follows:

	2016	*2015*
	HK$ million	HK$ million
Sale of properties	**17,679**	15,690
Rental income	**5,559**	5,589
Department store operation	**871**	879
Hotel operation	**78**	99
Others	**1,381**	1,384
Total (note 11(b))	**25,568**	23,641

4 Other revenue

	2016	*2015*
	HK$ million	HK$ million
Bank interest income	**327**	193
Other interest income *(note)*	**9**	124
Others	**160**	133
	496	450

Note: Other interest income for the years ended 31 December 2016 and 2015 included overdue interest income (before tax) of HK$Nil and HK$114 million received by the Group during the abovementioned years, respectively, in relation to refund of land deposits to the Group during the respective years.

5 Other net income

	2016	2015
	HK$ million	HK$ million
Net gain on disposal of subsidiaries	**1,959**	52
Net (loss)/gain on disposal of:		
- Investment properties	**(32)**	164
- Other property, plant and equipment	**-**	(4)
Other property, plant and equipment written off	**-**	(21)
Impairment loss on other property, plant and equipment	**-**	(10)
Net fair value gain on derivative financial instruments:		
- Interest rate swap contracts *(note (i))*	**597**	-
- Other derivatives	**78**	84
Cash flow hedges: reclassified from hedging reserve to profit or loss *(note (ii))*	**(12)**	-
Net realised gain on redemption of held-to-maturity debt securities	**11**	-
Reversal of impairment loss/(impairment loss) on held-to-maturity debt securities	**12**	(15)
Net gain on disposal of available-for-sale securities	**2**	164
Impairment loss on available-for-sale securities	**(21)**	(1)
Impairment loss on trade debtors (note 11(c))	**(11)**	(25)
Bad debts written off	**(4)**	(2)
Provision on inventories, net	**(332)**	(147)
Net gain recognised by HIL arising from the Compensation Payment (net of expenses in relation to the Arbitration) and after deducting the Joint Venture Company Impairment *(note (iii))*	**-**	230
Net foreign exchange gain	**108**	93
Others	**(72)**	(38)
	2,283	524

Notes:

(i) This represents the change in fair value of certain ineffective cash flow hedges during the year.

(ii) The net cumulative loss (before tax) of HK$12 million (2015: HK$Nil) was reclassified from equity to profit or loss upon the revocation of the hedge relationship between certain bank loans and guaranteed notes of the Company's wholly-owned subsidiaries (as hedged items) and their underlying interest rate swap contracts and cross-currency interest rate swap contracts (as hedging instruments) during the year.

5 Other net income (continued)

Notes: (continued)

(iii) In relation to the intangible operating right of the Hangzhou Qianjiang Third Bridge (the "Bridge") in Hangzhou, mainland China held by Henderson Investment Limited ("HIL", a subsidiary of the Company) on 30 April 2015, the arbitral tribunal of China International Economic and Trade Arbitration Commission ("CIETAC",中國國際經濟貿易仲裁委員會) made certain final arbitral award having legal binding effect on all parties (including HIL) to an arbitration application ("Arbitration") filed by Hangzhou Henderson Qianjiang Third Bridge Company, Limited (the"Joint Venture Company", a subsidiary of HIL which held the operating right of the Bridge) with CIETAC on 17 September 2012 against 杭州市市區公共停車場(庫)建設發展中心 (Hangzhou City Urban Public Carpark Construction & Development Centre, formerly known as 杭州市城市"四自"工程道路綜合收費管理處 or Hangzhou City "Sizi" Engineering & Highway General Toll Fee Administration Office) (the "Hangzhou Toll Office") as the first respondent and Hangzhou Municipal People's Government (杭州市人民政府) as the second respondent for an arbitration award that, inter alia, the first respondent and the second respondent should continue to perform their obligations under an agreement dated 5 February 2004 entered into between the Joint Venture Company and the Hangzhou Toll Office by paying toll fees of the Bridge to the Joint Venture Company and be liable for the relevant outstanding toll fees together with the legal and arbitration costs incurred.

As a result of the final arbitral award made by the arbitral tribunal of CIETAC, HIL received an amount of RMB376 million (equivalent to HK$477 million) (the "Compensation Payment") from Hangzhou Municipal People's Government. The entire Compensation Payment was settled by Hangzhou Municipal People's Government on 29 July 2015. Based on the proceeds from the Compensation Payment (net of expenses incurred in relation to the Arbitration) of HK$471 million and after (i) deducting HIL's impairment loss on toll bridge operating right and related net assets of the Joint Venture Company of HK$379 million (the "Joint Venture Company Impairment"); and (ii) recognising the reversal of the exchange reserve attributable to the Joint Venture Company of HK$138 million to other comprehensive income for the corresponding year ended 31 December 2015, a net gain of HK$230 million was recognised by HIL for the corresponding year ended 31 December 2015.

6 Increase in fair value of investment properties and investment properties under development

The Group's investment properties and investment properties under development were revalued at 31 December 2016 by DTZ Cushman & Wakefield Limited, an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis.

The valuations of completed investment properties in Hong Kong and mainland China were based on income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of the properties after expiry of the current lease.

For certain investment properties in Hong Kong and mainland China which are still under development, the valuations were determined on redevelopment basis and by taking into account the fair value of the completed investment property and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

As a result, a net fair value gain of HK$7,013 million (2015: HK$7,310 million) and deferred tax thereon of HK$445 million (2015: HK$11 million) have been recognised in the consolidated statement of profit or loss for the year.

7 Profit before taxation

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

		2016	*2015*
		HK$ million	HK$ million
(a)	**Finance costs:**		
	Bank loans interest	**751**	714
	Interest on loans wholly repayable within five years	**786**	823
	Interest on loans repayable after five years	**27**	73
	Other borrowing costs	**176**	185
		1,740	1,795
	Less: Amount capitalised *(note)*	**(858)**	(953)
		882	842

Note: The borrowing costs have been capitalised at weighted average interest rates (based on the principal amounts of the Group's bank loans and overdrafts, guaranteed notes and amount due to a fellow subsidiary during the period under which interest capitalisation is applicable) ranging from 2.97% to 4.70% (2015: 3.58% to 6.20%) per annum.

7 Profit before taxation (continued)

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

		2016 **HK$ million**	*2015* HK$ million
(b)	**Directors' emoluments**	**177**	176
(c)	**Staff costs (other than directors' emoluments):**		
	Salaries, wages and other benefits	**1,952**	1,944
	Contributions to defined contribution retirement plans	**88**	84
		2,040	2,028
(d)	**Other items:**		
	Depreciation	**106**	129
	Net foreign exchange gain	**(210)**	(207)
	Cash flow hedges: net foreign exchange loss reclassified from equity	**102**	114
		(108)	(93)
	Amortisation of intangible operating right	**-**	10
	Cost of sales		
	— completed properties for sale	**12,206**	10,025
	— trading stocks	**293**	361
	Auditors' remuneration		
	— audit services	**18**	20
	— non-audit services	**10**	8
	Operating lease charges: minimum lease payments in respect of leasing of building facilities	**220**	244
	Rentals receivable from investment properties less direct outgoings of HK$1,319 million (2015: HK$1,422 million) *(note (i))*	**(4,084)**	(3,964)
	Rental income from others less direct outgoings of HK$263 million (2015: HK$274 million) *(notes (ii) and (iii))*	**(384)**	(396)
	Dividend income from investments in available-for-sale securities		
	— listed	**(164)**	(166)
	— unlisted	**(99)**	(9)

Notes:

(i) The rental income from investment properties included contingent rental income of HK$37 million (2015: HK$35 million).

(ii) The rental income from others included contingent rental income of HK$188 million (2015: HK$191 million).

(iii) The net rental income before tax included net rental income before tax in the amount of HK$235 million (2015: HK$231 million) which is related to the department store operation segment.

8 Income tax

Income tax in the consolidated statement of profit or loss represents:

	2016	*2015*
	HK$ million	HK$ million
Current tax - Provision for Hong Kong Profits Tax		
Provision for the year	**756**	843
(Over)/under-provision in respect of prior years	**(9)**	19
	747	862
Current tax - Provision for taxation outside Hong Kong		
Provision for the year	**471**	408
Over-provision in respect of prior years	**(37)**	(41)
	434	367
Current tax - Provision for Land Appreciation Tax		
Provision for the year	**263**	100
Over-provision in respect of prior years	**(5)**	(93)
	258	7
Deferred tax		
Origination and reversal of temporary differences	**816**	228
	816	228
	2,255	1,464

Provision for Hong Kong Profits Tax has been made at 16.5% (2015: 16.5%) on the estimated assessable profits for the year, taking into account a one-off reduction of 75% of the tax payable for the year of assessment 2015/16 subject to a ceiling of HK$20,000 (2014/15: HK$20,000) for each business allowed by the Hong Kong Special Administrative Region Government.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the year.

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

9 Dividends

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

	2016	*2015*
	HK$ million	HK$ million
Interim dividend declared and paid of HK$0.42 (2015: HK$0.38) per share	**1,528**	1,256
Final dividend proposed after the end of the reporting period of HK$1.13 (2015: HK$1.07) per share	**4,110**	3,538
	5,638	4,794

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

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

	2016	*2015*
	HK$ million	HK$ million
Final dividend in respect of the previous financial year, approved and paid during the year of HK$1.07 (2015: HK$0.76) per share	**3,538**	2,280

10 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$21,916 million (2015: HK$21,326 million) and the weighted average number of 3,637 million ordinary shares in issue during the year (2015: 3,633 million ordinary shares*), calculated as follows:

	2016	*2015*
	million	million
Number of issued ordinary shares at 1 January#	**3,306**	3,000
Weighted average number of ordinary shares issued in respect of scrip dividends	**-**	3
Weighted average number of ordinary shares issued in respect of the bonus issue in 2015	**-**	300
Weighted average number of ordinary shares issued in respect of the bonus issue in 2016	**331**	330
Weighted average number of ordinary shares for the year (2015: as adjusted)	**3,637**	3,633

Diluted earnings per share were the same as the basic earnings per share for the year and the corresponding year ended 31 December 2015 as there were no dilutive potential ordinary shares in existence during both years.

** Adjusted for the bonus issue effected in 2016.*

10 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the underlying profit attributable to equity shareholders of the Company ("Underlying Profit") of HK$14,169 million (2015: HK$11,009 million), which excludes the effects of changes in fair value of investment properties and investment properties under development during the year. A reconciliation of profit is as follows:

	2016	*2015*
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**21,916**	21,326
Changes in fair value of investment properties and investment properties under development during the year (note 6)	**(7,013)**	(7,310)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the year (note 6)	**445**	11
Share of changes in fair value of investment properties (net of deferred tax) during the year:		
– associates	**(867)**	(864)
– joint ventures	**(2,436)**	(2,814)
Cumulative fair value change of investment properties disposed of during the year, net of tax (*note*)		
– subsidiaries	**2,257**	774
– associates and joint ventures	**-**	76
Effect of share of non-controlling interests	**(133)**	(190)
Underlying Profit	**14,169**	11,009
Underlying earnings per share	**HK$3.90**	HK$3.03*

** Adjusted for the bonus issue effected in 2016.*

Note: *In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the year (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the year) of HK$2,119 million (2015: HK$616 million) was added back in arriving at the Underlying Profit.*

11 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

Property development	:	Development and sale of properties
Property leasing	:	Leasing of properties
Department store operation	:	Department store operation and management
Hotel operation	:	Hotel operation and management
Others	:	Construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land
Utility and energy	:	Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses

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

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before bank interest income, (provision)/reversal of provision on inventories, sales of property interests, fair value adjustment of investment properties and investment properties under development, finance costs, income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses, net.

(a) Results of reportable segments

Information regarding the Group's and its share of associates and joint ventures on reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below:

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

For the year ended 31 December 2016	Company and its subsidiaries (before deducting non-controlling interests): Revenue *(note (i))* HK$ million	Company and its subsidiaries (before deducting non-controlling interests): Segment results HK$ million	Associates and joint ventures: Share of revenue HK$ million	Associates and joint ventures: Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Attributable to non-controlling interests: Revenue HK$ million	Attributable to non-controlling interests: Segment results HK$ million	Attributable to equity shareholders of the Company: Combined revenue HK$ million	Attributable to equity shareholders of the Company: Consolidated segment results HK$ million
Property development										
Hong Kong	9,951	2,752	115	76	10,066	2,828	(960)	(286)	9,106	2,542
Mainland China	7,728	1,085	2,740	369	10,468	1,454	(5)	(9)	10,463	1,445
	17,679	3,837	2,855	445	20,534	4,282	(965)	(295)	19,569	3,987
Property leasing										
Hong Kong	3,871	2,894	2,684	2,244	6,555	5,138	(15)	(6)	6,540	5,132
Mainland China	1,688	1,339	12	10	1,700	1,349	-	-	1,700	1,349
(note (ii))	5,559	4,233	2,696	2,254	8,255	6,487	(15)	(6)	8,240	6,481
Department store operation	871	298		-		298		(36)		262
Hotel operation	78	(21)		272		251		-		251
Others	1,381	717		(97)		620		(19)		601
	25,568	9,064		2,874		11,938		(356)		11,582
Utility and energy	-	-		3,596		3,596		-		3,596
	25,568	9,064		6,470		15,534		(356)		15,178
Bank interest income		327		100		427		(5)		422
Provision on inventories, net		(332)		(1)		(333)		-		(333)
Sales of property interests *(note (iv))*		1,927		1		1,928		11		1,939
Unallocated head office and corporate income expenses, net *(note (iii))*		(456)		(307)		(763)		13		(750)
Profit from operations		10,530		6,263		16,793		(337)		16,456
Increase in fair value of investment properties and investment properties under development		7,013		3,316		10,329		(5)		10,324
Finance costs		(882)		(679)		(1,561)		17		(1,544)
Profit before taxation		16,661		8,900		25,561		(325)		25,236
Income tax		(2,255)		(1,120)		(3,375)		55		(3,320)
Profit for the year		14,406		7,780		22,186		(270)		21,916

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million	Property leasing HK$ million	Hotel operation HK$ million	Others HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2016							
Share of profits less losses of associates *(note (v))*							
- Listed associates							
The Hong Kong and China Gas Company Limited	**-**	**713**	**21**	**(407)**	**327**	**2,721**	**3,048**
Miramar Hotel and Investment Company, Limited	**-**	**613**	**52**	**(38)**	**627**	**-**	**627**
Hong Kong Ferry (Holdings) Company Limited	**37**	**38**	**-**	**5**	**80**	**-**	**80**
- Unlisted associates	**33**	**99**	**-**	**4**	**136**	**-**	**136**
	70	**1,463**	**73**	**(436)**	**1,170**	**2,721**	**3,891**
Share of profits less losses of joint ventures *(note (vi))*	**171**	**3,584**	**130**	**4**	**3,889**	**-**	**3,889**
	241	**5,047**	**203**	**(432)**	**5,059**	**2,721**	**7,780**

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue ***(note (i))***	**Segment results**	**Share of revenue**	**Share of segment results**	**Combined revenue**	**Consolidated segment results**	**Revenue**	**Segment results**	**Combined revenue**	**Consolidated segment results**
For the year ended 31 December 2015	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**
Property development										
Hong Kong	12,091	3,805	334	95	12,425	3,900	(1,254)	(551)	11,171	3,349
Mainland China	3,599	287	2,040	355	5,639	642	(3)	(11)	5,636	631
	15,690	4,092	2,374	450	18,064	4,542	(1,257)	(562)	16,807	3,980
Property leasing										
Hong Kong	3,852	2,786	2,574	2,179	6,426	4,965	(22)	(15)	6,404	4,950
Mainland China	1,737	1,343	11	10	1,748	1,353	-	-	1,748	1,353
(note (ii))	5,589	4,129	2,585	2,189	8,174	6,318	(22)	(15)	8,152	6,303
Department store operation	879	301		-		301		(38)		263
Hotel operation	99	(31)		282		251		-		251
Others	1,384	1,045		(105)		940		30		970
	23,641	9,536		2,816		12,352		(585)		11,767
Utility and energy	-	-		3,633		3,633		-		3,633
	23,641	9,536		6,449		15,985		(585)		15,400
Bank interest income		193		147		340		(5)		335
Provision on inventories, net		(147)		(5)		(152)		-		(152)
Sales of property interests *(note (iv))*		216		56		272		(43)		229
Unallocated head office and corporate expenses, net *(note (iii))*		(1,228)		(313)		(1,541)		11		(1,530)
Profit from operations		8,570		6,334		14,904		(622)		14,282
Increase in fair value of investment properties and investment properties under development		7,310		3,684		10,994		(44)		10,950
Finance costs		(842)		(600)		(1,442)		8		(1,434)
Profit before taxation		15,038		9,418		24,456		(658)		23,798
Income tax		(1,464)		(1,118)		(2,582)		110		(2,472)
Profit for the year		13,574		8,300		21,874		(548)		21,326

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million	Property leasing HK$ million	Hotel operation HK$ million	Others HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2015							
Share of profits less losses of associates *(note (v))*							
- Listed associates							
The Hong Kong and China Gas Company Limited	-	704	23	(408)	319	2,712	3,031
Miramar Hotel and Investment Company, Limited	-	557	59	83	699	-	699
Hong Kong Ferry (Holdings) Company Limited	42	17	-	6	65	-	65
- Unlisted associates	291	153	-	8	452	-	452
	333	1,431	82	(311)	1,535	2,712	4,247
Share of profits less losses of joint ventures *(note (vi))*	(1)	3,924	134	(4)	4,053	-	4,053
	332	5,355	216	(315)	5,588	2,712	8,300

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) *The revenue figures above are arrived at after the elimination of inter-segment revenues, in the amounts of HK$327 million (2015: HK$327 million) and HK$2,368 million (2015: HK$1,670 million) in relation to the reportable segments under property leasing and others, respectively.*

(ii) *Revenue for the property leasing segment comprises rental income of HK$5,022 million (2015: HK$4,947 million) and rental-related income of HK$537 million (2015: HK$642 million), which in aggregate amounted to HK$5,559 million for the year (2015: HK$5,589 million).*

(iii) *Unallocated head office and corporate expenses, net of HK$456 million for the year (2015: HK$1,228 million) is stated after taking into account the net fair value gain on interest rate swap contracts of HK$597 million (2015: HK$Nil)(see note 5). Excluding the aforementioned gain, the Group's unallocated head office and corporate expenses, net for the year amounted to HK$1,053 million (2015: HK$1,228 million).*

(iv) *Adding back the Group's attributable share of cumulative fair value gains on the disposal of investment properties up to the time of disposals of HK$1,991 million (2015: HK$415 million), the Group recognised an aggregate gain from these disposals of investment properties in the amount of HK$3,930 million attributable to the Group's underlying profit for the year ended 31 December 2016 (2015: HK$592 million attributable to the Group's underlying profit for the year ended 31 December 2015).*

(v) *The Group's share of profits less losses of associates contributed from the property leasing segment during the year of HK$1,463 million (2015: HK$1,431 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$867 million (2015: HK$864 million).*

(vi) *The Group's share of profits less losses of joint ventures contributed from the property leasing segment during the year of HK$3,584 million (2015: HK$3,924 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$2,436 million (2015: HK$2,814 million).*

11 Segment reporting (continued)

(b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's investment properties, other property, plant and equipment, interests in associates and joint ventures (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of investment properties and other property, plant and equipment, and the location of operations in the case of interests in associates and joint ventures.

	Revenue from external customers		**Specified non-current assets**	
	For the year ended 31 December		**At 31 December**	
	2016	*2015*	***2016***	*2015*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**16,114**	18,279	**187,715**	176,287
Mainland China	**9,454**	5,362	**38,218**	41,574
	25,568	23,641	**225,933**	217,861
	(note 3)	(note 3)		

(c) Other segment information

	Amortisation and depreciation		**(Reversal of impairment loss)/impairment loss on trade debtors**	
	For the year ended 31 December		**For the year ended 31 December**	
	2016	*2015*	***2016***	*2015*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**11**	20	**-**	-
Property leasing	**6**	10	**(5)**	*2*
Department store operation	**25**	27	**-**	-
Hotel operation	**31**	41	**-**	-
Others	**33**	41	**16**	*23*
	106	139	**11**	*25*

12 Deposits for acquisition of properties

The Group's deposits for acquisition of properties mainly include HK$3,591 million (2015: HK$3,834 million) and HK$561 million (2015: HK$561 million) paid relating to the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

In respect of the deposit paid relating to the land in Macau, the conditions precedent for the acquisition have not yet been fulfilled. The parties to the agreement have agreed to extend the date for the fulfillment of the conditions precedent. If the acquisition shall not proceed, then the Group is entitled to recover the deposit paid.

13 Inventories

	2016	*2015*
	HK$ million	HK$ million
Property development		
Leasehold land held for development for sale	**10,334**	10,130
Properties held for/under development for sale	**54,440**	61,884
Completed properties for sale	**10,388**	9,460
	75,162	81,474
Other operations		
Trading stocks	**80**	82
	75,242	81,556

14 Trade and other receivables

	2016	*2015*
	HK$ million	HK$ million
Instalments receivable	**1,561**	2,146
Loans receivable	**293**	236
Debtors, prepayments and deposits	**8,686**	5,781
Gross amount due from customers for contract work	**22**	18
Derivative financial instruments	**7**	-
Amounts due from associates	**6**	144
Amounts due from joint ventures	**76**	46
	10,651	8,371

(i) All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits, prepayments and other receivables of HK$2,866 million (2015: HK$2,059 million) which are expected to be recovered after more than one year.

(ii) At 31 December 2015, the loans receivable included an amount of HK$200 million which was secured, interest-bearing at Hong Kong Interbank Offered Rate plus 5.65% per annum and was fully settled during the year. Accordingly, the remaining amount of loan receivable brought forward to 2016 was HK$36 million.

At 31 December 2016, the loans receivable comprised amounts of HK$114 million (which included the remaining loan receivable of HK$36 million referred to above) and HK$179 million which are secured, interest-bearing at Hong Kong Interbank Offered Rate plus 4% and Hong Kong Interbank Offered Rate plus 12% per annum, respectively. The balances are expected to be recovered within one year from the end of the reporting period.

The balances of loans receivable are neither past due nor impaired.

14 Trade and other receivables (continued)

(iii) At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables) net of allowance for doubtful debts is as follows:

	2016 **HK$ million**	*2015* HK$ million
Current or up to 1 month overdue	**2,426**	2,888
More than 1 month overdue and up to 3 months overdue	**44**	73
More than 3 months overdue and up to 6 months overdue	**13**	24
More than 6 months overdue	**55**	63
	2,538	3,048

(iv) Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties and loan receivable which enable management to assess their recoverability and to minimise the exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk.

For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowance for impairment losses have been made for estimated irrecoverable amounts.

(v) The amounts due from associates and joint ventures are unsecured and interest-free, have no fixed terms of repayment and are neither past due nor impaired.

15 Trade and other payables

	2016 **HK$ million**	*2015* HK$ million
Creditors and accrued expenses (other than those transferred to the disposal group)	**7,748**	8,484
Gross amount due to customers for contract work	**2**	16
Rental and other deposits (other than those transferred to the disposal group)	**1,748**	1,412
Forward sales deposits received	**8,353**	8,235
Derivative financial instruments	**318**	3
Amounts due to associates	**401**	143
Amounts due to joint ventures	**2,653**	805
	21,223	19,098

15 Trade and other payables (continued)

(i) All of the Group's trade and other payables are expected to be settled within one year or are repayable on demand except for an amount of HK$819 million (2015: HK$845 million) which is expected to be settled after more than one year. Included in the abovementioned balance was an amount of HK$22 million (2015: HK$24 million) which is interest-bearing at 1.75% (2015: 3.50%) per annum.

(ii) At the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables) is as follows:

	2016	*2015*
	HK$ million	HK$ million
Due within 1 month or on demand	**1,874**	1,686
Due after 1 month but within 3 months	**508**	1,120
Due after 3 months but within 6 months	**512**	1,183
Due after 6 months	**3,055**	2,599
	5,949	6,588

(iii) The amounts due to associates and joint ventures are unsecured, interest-free and have no fixed terms of repayment.

16 Review of results

The financial results for the year ended 31 December 2016 have been reviewed with no disagreement by the Audit Committee of the Company.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2016 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

FINANCIAL REVIEW

Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated financial statements for the year ended 31 December 2016.

Revenue and profit

	Revenue			***Profit contribution from operations***		
	Year ended 31 December		*Increase/*	***Year ended 31 December***		*Increase/*
	2016	2015	*(Decrease)*	**2016**	2015	*(Decrease)*
	HK$ million	HK$ million	*%*	**HK$ million**	HK$ million	*%*
Reportable segments						
- Property development	**17,679**	15,690	*+13%*	**3,837**	4,092	*-6%*
- Property leasing	**5,559**	5,589	*-1%*	**4,233**	4,129	*+3%*
- Department store operation	**871**	879	*-1%*	**298**	301	*-1%*
- Hotel operation and other businesses	**1,459**	1,483	*-2%*	**696**	1,014	*-31%*
	25,568	23,641	*+8%*	**9,064**	9,536	*-5%*

	Year ended 31 December		
	2016	2015	*Increase*
	HK$ million	HK$ million	*%*
Profit attributable to equity shareholders of the Company			
- including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures	**21,916**	21,326	*+3%*
- excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures ("Underlying Profit") *(Note)*	**14,169**	11,009	*+29%*

Note :

Underlying profit attributable to equity shareholders of the Company ("Underlying Profit") excludes the Group's attributable share of fair value change (net of deferred tax) of the investment properties and investment properties under development held by subsidiaries, associates and joint ventures. In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the year (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the year) of HK$2,119 million (2015: HK$616 million) was added back in arriving at the Underlying Profit.

Excluding the effects of certain one-off income/expense items from the Underlying Profit for the years ended 31 December 2016 and 2015, the adjusted Underlying Profit for the two financial years is as follows :-

	Year ended 31 December			
	2016	2015	*Increase/(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
Underlying Profit	**14,169**	11,009	*3,160*	*+29%*
(Less)/Add :				
One-off (income)/expense items –				
The Group's attributable share of a one-off gain arising from the Compensation Payment (as referred to in the paragraph headed "Hotel operation and other businesses" below)	**-**	(246)	*246*	
Net fair value gain on derivative financial instruments relating to interest rate swap contracts (net of tax)	**(499)**	-	*(499)*	
Impairment loss in the carrying amount of a development land site in mainland China which was surrendered during the year	**75**	50	*25*	
Gain on disposal of certain available-for-sale equity securities	**(2)**	(164)	*162*	
Overdue interest income in relation to the refund of land deposits regarding land sites in mainland China (net of tax)	**-**	(80)	*80*	
Adjusted Underlying Profit	**13,743**	10,569	*3,174*	*+30%*

Discussions on the major reportable segments are set out below.

Property development

Gross revenue - subsidiaries

The gross revenue from property sales during the years ended 31 December 2016 and 2015 generated by the Group's subsidiaries, and by geographical contribution, is as follows :-

	Year ended 31 December			
	2016	2015	*Increase/(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**9,951**	12,091	*(2,140)*	*-18%*
Mainland China	**7,728**	3,599	*4,129*	*+115%*
	17,679	15,690	*1,989*	*+13%*

The gross revenue from property sales in Hong Kong, relating to projects held by the Group's subsidiaries, during the year ended 31 December 2016 was contributed from "High One", "Double Cove Grandview", "Double Cove Summit", "H • Bonaire" and "Jones Hive" (all being property development projects which were completed during the year) in the aggregate amount of HK$6,812 million, as well as from the other major completed projects such as "39 Conduit Road", "Double Cove Starview Prime" and "The Gloucester" in the aggregate amount of HK$3,139 million. By comparison, the gross revenue from property sales in Hong Kong during the corresponding year ended 31 December 2015 was contributed as to HK$8,344 million from property development projects which were completed in that year, and as to HK$3,747 million from the other completed projects.

The gross revenue from sales relating to properties in mainland China, relating to projects held by the Group's subsidiaries, during the year ended 31 December 2016 was contributed primarily from the sold and delivered units in relation to Phase 3A of "The Arch of Triumph" in Changsha, Phase 2 of "Emerald Valley" in Nanjing, Phase 2B of "Xuzhou Lakeview Development" in Xuzhou, Phase F1F2 - 1A and 1B of "Riverside Park" in Suzhou, Phase 1 of Site B1 of "Grand Lakeview" in Yixing and Phase 2 of "Arc De Triomphe" in Anshan (all being property development projects which were completed during the year) in the aggregate amount of HK$4,671 million and the other projects which were completed prior to 1 January 2016 in the aggregate amount of HK$1,852 million. By comparison, the gross revenue from property sales in mainland China during the corresponding year ended 31 December 2015 was contributed as to HK$1,806 million from the sold and delivered units in relation to the property development projects which were completed in that year, and as to HK$1,793 million from the sold and delivered units in relation to the other projects which were completed prior to 1 January 2015.

Pre-tax profits – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax profits from property sales, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2016 and 2015, is as follows :-

	Year ended 31 December		*Increase/(Decrease)*	
	2016	2015		
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**2,542**	3,349	*(807)*	*-24%*
Mainland China	**1,445**	631	*814*	*+129%*
	3,987	3,980	*7*	*+0.2%*

The decrease in the Group's share of pre-tax profits from property sales in Hong Kong during the year ended 31 December 2016 of HK$807 million, or 24%, is mainly attributable to the decrease in gross revenue from property sales in Hong Kong (relating to projects held by the Group's subsidiaries) as explained above.

The increase in the Group's share of pre-tax profits from property sales in mainland China during the year ended 31 December 2016 of HK$814 million, or 129%, is mainly attributable to increase in gross revenue from property sales in mainland China (relating to projects held by the Group's subsidiaries) as explained above as well as the Group's attributable share of pre-tax profit contribution of HK$206 million from the property sales of "Amber Garden" project in Shanghai (2015: Nil), a joint venture project completed in October 2016 and in which the Group has a 35% interest.

	Year ended 31 December			
	2016	2015	*Increase/(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries	**3,542**	3,530	*12*	*+0.3%*
Associates	**187**	426	*(239)*	*-56%*
Joint ventures	**258**	24	*234*	*+975%*
	3,987	3,980	*7*	*+0.2%*

The decrease in the Group's share of pre-tax profit contribution from the property sales of associates during the year ended 31 December 2016 is mainly attributable to the decrease of HK$234 million in the Group's attributable share of pre-tax profit contribution from the property sales of "Henderson • CIFI Centre" in Shanghai, being a project in mainland China held by an associate of the Group which was completed in 2015.

The increase in the Group's share of pre-tax profit contribution from the property sales of joint ventures during the year ended 31 December 2016 is mainly attributable to the the Group's attributable share of pre-tax profit contribution of HK$206 million from the property sales of "Amber Garden" project in Shanghai, mainland China (2015: Nil) which was completed during the year, and the increase in the Group's attributable share of pre-tax profit contribution of HK$26 million from the property sales of "La Botanica" in Xian, mainland China.

Property leasing

Gross revenue - subsidiaries

The gross revenue from property leasing during the years ended 31 December 2016 and 2015 generated by the Group's subsidiaries, and by geographical contribution, is as follows :-

	Year ended 31 December			
	2016	2015	*Increase/(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**3,871**	3,852	*19*	*+1%*
Mainland China	**1,688**	1,737	*(49)*	*-3%*
	5,559	5,589	*(30)*	*-1%*

Pre-tax net rental income – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax net rental income, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2016 and 2015, is as follows :-

	Year ended 31 December			
	2016	2015	*Increase/(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**5,132**	4,950	*182*	*+4%*
Mainland China	**1,349**	1,353	*(4)*	*-0.3%*
	6,481	6,303	*178*	*+3%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries	**4,227**	4,114	*113*	*+3%*
Associates	**761**	731	*30*	*+4%*
Joint ventures	**1,493**	1,458	*35*	*+2%*
	6,481	6,303	*178*	*+3%*

For Hong Kong, the slight increase in gross revenue during the year ended 31 December 2016 is due to the fact that the gross revenue for the year excluded the recharge of rates to the tenants in the amount of HK$127 million, for the reason that such rental outgoing on rates were borne by the tenants. By comparison, the gross revenue for the corresponding year ended 31 December 2015 included the recharge of rates to the tenants in the amount of HK$118 million. For the purpose of a like-for-like comparison, by excluding the recharge of rates to the tenants, the gross revenue for the corresponding year ended 31 December 2015 would have become HK$3,734 million. As a result, the gross revenue of HK$3,871 million for the year ended 31 December 2016 demonstrates a year-on-year increase of 4% over that for the corresponding year ended 31 December 2015, representing a natural growth in the average rentals of the portfolio of investment properties in Hong Kong during the year ended 31 December 2016.

For mainland China, on an overall portfolio basis, there was a year-on-year decrease of 3% in rental revenue contribution for the year ended 31 December 2016 but the pre-tax net rental income contribution for the year ended 31 December 2016 remained relatively stable compared with that of the previous year. The decrease in rental revenue is due to the effect of the depreciation of Renminbi against Hong Kong dollar by approximately 6% during the year ended 31 December 2016 when compared with the corresponding year ended 31 December 2015. Nevertheless, the stable performance of the pre-tax net rental income is largely due to the improved operating efficiency which resulted in savings in administrative expenses during the year ended 31 December 2016, whereby the ratio of pre-tax net rental income to rental revenue has increased from 77% for the corresponding year ended 31 December 2015 to 79% for the year ended 31 December 2016. In particular, for “Henderson 688” in Shanghai, there was a remarkable year-on-year increase in rental revenue and pre-tax net rental income during the year by approximately 22% and 56% respectively. On the other hand, “World Financial Centre” in Beijing experienced a year-on-year decrease of 6% in rental revenue due to the early surrender of the tenancy leases of certain tenants during the year and as a result of which the occupancy rate dropped from 99% at 31 December 2015 to 96% at 31 December 2016, and a year-on-year decrease of 9% in pre-tax net rental income due to the increase in property tax expenditure resulting from the change in tax policy during the year.

Department store operation

Department store operation is carried out by Citistore (Hong Kong) Limited (“Citistore HK”), which is a wholly-owned subsidiary of Henderson Investment Limited, a subsidiary of the Company.

For the year ended 31 December 2016, revenue contribution from the department store operation amounted to HK$871 million (2015: HK$879 million) which represents a year-on-year decrease of HK$8 million or 1% from that for the corresponding year ended 31 December 2015. Profit contribution for the year ended 31 December 2016 amounted to HK$298 million (2015: HK$301 million) which represents a year-on-year decrease of HK$3 million or 1% from that for the corresponding year ended 31 December 2015. Such decreases are mainly attributable to the weakened retail market sentiment in Hong Kong during the year ended 31 December 2016.

Hotel operation and other businesses

Hotel operation comprises those of the Group’s two hotels, namely Newton Inn North Point and Newton Place Hotel, during the year ended 31 December 2016. Other businesses mainly comprise construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

Revenue of hotel operation and other businesses for the year ended 31 December 2016 decreased by HK$24 million, or 2%, from that for the corresponding year ended 31 December 2015 to HK$1,459 million. This is mainly attributable to (i) the decrease in the revenue from hotel operation of HK$21 million due to the loss of revenue contribution from Newton Hotel Hong Kong which ceased business operation on 25 August 2015 to make way for its redevelopment into an office building ; and (ii) the decrease in income from construction activities of HK$204 million mainly due to the completion of the "Double Cove" project during the year, which are partially offset by (iii) the increase in interest income received from first mortgage loans and second mortgage loans offered to property buyers of HK$64 million ; (iv) the increase in dividend income from investments of HK$100 million ; and (v) the increase in revenue from the sale of leasehold land and from cleaning and security guard services in the aggregate amount of HK$39 million.

The profit contribution of hotel operation and other businesses for the year ended 31 December 2016 decreased by HK$318 million, or 31%, from that for the corresponding year ended 31 December 2015 to HK$696 million. This is mainly attributable to (i) the non-recurrence of the one-off gain of HK$215 million arising from the Compensation Payment regarding the infrastructure business during the corresponding year ended 31 December 2015 (in relation to which the Group's attributable share amounts to HK$246 million, as referred to in the paragraph headed "Revenue and profit" above) ; and (ii) the decrease in the gain on disposal of certain available-for-sale equity securities in the amount of HK$162 million during the corresponding year ended 31 December 2015, whilst the Group recognised (iii) an increase in profit contribution of HK$71 million from the increase in interest income received during the year from first mortgage loans and second mortgage loans offered to property buyers; and (iv) a decrease in the operating loss from the hotel operation of HK$10 million due to the cessation of Newton Hotel Hong Kong's business operation as referred to above.

Associates

The Group's attributable share of post-tax profits less losses of associates during the year ended 31 December 2016 amounted to HK$3,891 million (2015 : HK$4,247 million), representing a decrease of HK$356 million, or 8%, from that for the corresponding year ended 31 December 2015. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates (net of deferred taxation) of HK$867 million during the year ended 31 December 2016 (2015 : HK$864 million), the Group's attributable share of the underlying post-tax profits less losses of associates for the year ended 31 December 2016 amounted to HK$3,024 million (2015 (restated): HK$3,459 million, as adjusted for by adding back the Group's attributable share of the cumulative fair value change of investment properties disposed of during the year of HK$76 million, which is consistent with the basis as referred to in "*Note*" to the paragraph headed "Revenue and profit" above), representing a decrease of HK$435 million, or 13%, from that for the corresponding year ended 31 December 2015.

Such year-on-year decrease in the underlying post-tax profits was mainly due to the following :-

(i) the Group's attributable share of increase in the underlying post-tax profit contribution from The Hong Kong and China Gas Company Limited of HK$14 million. During the year ended 31 December 2016, the Hong Kong gas business maintained stable growth while the utility and emerging environmentally-friendly energy businesses in mainland China were impacted by the depreciation of Renminbi and low international oil prices ;

(ii) the Group's attributable share of increase in the underlying post-tax profit contribution from Hong Kong Ferry (Holdings) Company Limited of HK$1 million, mainly due to the Group's attributable share of increase in the underlying post-tax profit contribution of HK$7 million from property leasing which was partially offset by the Group's attributable share of decrease in the post-tax profit contribution of HK$5 million from property sales ;

(iii) the Group's attributable share of decrease in the underlying post-tax profit contribution from Miramar Hotel and Investment Company, Limited ("Miramar") of HK$191 million mainly due to the non-recurrence of the Group's attributable share of the gain on disposal of Knutsford Terrace, an investment property, in the amount of HK$132 million during the corresponding year ended 31 December 2015, and the decrease in the gain on bargain purchase to the Group of HK$54 million arising from the Group's on-market purchases of an aggregate of 3,302,000 shares of Miramar during the year ended 31 December 2016 ; and

(iv) the decrease in the Group's attributable share of post-tax profit contribution from the property sales of "Henderson • CIFI Centre" in Shanghai, mainland China in the amount of HK$258 million.

Joint ventures

The Group's attributable share of post-tax profits less losses of joint ventures during the year ended 31 December 2016 amounted to HK$3,889 million (2015: HK$4,053 million), representing a decrease of HK$164 million, or 4%, from that for the corresponding year ended 31 December 2015. Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures (net of deferred taxation) of HK$2,436 million during the year ended 31 December 2016 (2015: HK$2,814 million), the Group's attributable share of the underlying post-tax profits less losses of joint ventures for the year ended 31 December 2016 amounted to HK$1,453 million (2015: HK$1,239 million), representing an increase of HK$214 million, or 17%, over that for the corresponding year ended 31 December 2015. Such year-on-year increase was mainly attributable to the Group's attributable share of post-tax profit contribution of HK$156 million (2015: Nil) from the property sales of "Amber Garden" project in Shanghai, mainland China, which is a joint venture project completed in October 2016.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the year ended 31 December 2016 amounted to HK$882 million (2015: HK$842 million). Finance costs before interest capitalisation for the year ended 31 December 2016 amounted to HK$1,740 million (2015: HK$1,795 million).

During the year ended 31 December 2016, the Group's effective borrowing rate in relation to (i) the Group's bank and other borrowings in Hong Kong was approximately 2.95% per annum (2015: approximately 3.54% per annum) ; and (ii) the Group's bank and other borrowings in mainland China was approximately 4.66% per annum (2015: approximately 6.00% per annum). Overall, based on the Group's total debt of HK$56,400 million at 31 December 2016 (2015 : HK$52,096 million) as referred to in the paragraph headed "Maturity profile and interest cover" below and of which approximately 99.5% (2015 : 98.7%) is represented by the Group's bank and other borrowings in Hong Kong, the Group's effective borrowing rate during the year ended 31 December 2016 was approximately 2.97% per annum (2015: approximately 3.69% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$7,013 million in the consolidated statement of profit or loss for the year ended 31 December 2016 (2015 : HK$7,310 million).

Financial resources and liquidity

Medium Term Note Programme

At 31 December 2016, the aggregate carrying amount of notes guaranteed by the Company and issued under the Group's Medium Term Note Programme established on 30 August 2011 and which remained outstanding was HK$8,004 million (2015: HK$10,202 million), with tenures of between five years and twenty years (2015: between four years and twenty years). These notes are included in the Group's bank and other borrowings at 31 December 2016 as referred to in the paragraph headed "Maturity profile and interest cover" below.

Maturity profile and interest cover

The maturity profile of the total debt, the cash and bank balances and the gearing ratio of the Group were as follows:

	At 31 December 2016 HK$ million	At 31 December 2015 HK$ million
Bank and other borrowings repayable:		
- Within 1 year	**20,152**	12,408
- After 1 year but within 2 years	**6,712**	8,454
- After 2 years but within 5 years	**28,681**	28,389
- After 5 years	**539**	1,660
Amount due to a fellow subsidiary	**316**	1,185
Total debt	**56,400**	52,096
Less:		
Cash and bank balances	**(22,966)**	(11,779)
Net debt	**33,434**	40,317
Shareholders' funds	**263,534**	251,247
Gearing ratio (%)	**12.7%**	16.0%

At 31 December 2016, after taking into account the effect of swap contracts designated as cash flow hedging instruments, 45% (2015 : 54%) of the Group's total debt carried fixed interest rates.

Gearing ratio is calculated based on the net debt and shareholders' funds of the Group at the end of the reporting period.

The interest cover of the Group is calculated as follows :

	Year ended 31 December	
	2016	2015
	HK$ million	HK$ million
Profit from operations (before changes in fair value of investment properties and investment properties under development) plus the Group's share of the underlying profits less losses of associates and joint ventures	**15,007**	13,192
Interest expense (before interest capitalisation)	**1,564**	1,610
Interest cover (times)	**10**	8

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities are centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the end of the reporting period for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars ("US$"), Sterling ("£") and Singapore dollars ("S$"), the bank borrowings which are denominated in Japanese Yen ("¥") ("Yen borrowings"), as well as the fixed coupon rate bond ("Bond") which is denominated in United States dollars.

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond and the Yen borrowings in the aggregate principal amounts of US$672,000,000, £50,000,000, S$200,000,000 and ¥10,000,000,000 at 31 December 2016 (2015: US$672,000,000, £50,000,000, S$200,000,000 and ¥10,000,000,000), interest rate swap contracts and cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars which bear floating interest rates in the aggregate principal amount of HK$11,450,000,000 at 31 December 2016 (2015: HK$11,700,000,000), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure.

Material acquisitions and disposals

Material disposals

On 15 September 2016, the Group entered into a sale and purchase agreement with an independent third party pursuant to which the Group sold its entire issued share capital of, and the shareholder's loan to, a wholly-owned subsidiary together with its entire interest in a company which owns Golden Centre, being an investment property in Hong Kong. The disposal was completed on 1 December 2016. The Group received an adjusted consideration of HK$4,348 million and recognised a net gain on disposal of subsidiaries, attributable to the Group's reported profit for the year ended 31 December 2016, in the amount of HK$1,956 million. Adding back the cumulative fair value gain on Golden Centre of HK$1,876 million up to 30 June 2016 (being the latest valuation date on Golden Centre prior to the execution of the sale and purchase agreement), the Group recognised a gain on disposal of subsidiaries, attributable to the Group's underlying profit for the year ended 31 December 2016, in the amount of HK$3,832 million.

On 8 December 2016, the Group entered into a sale and purchase agreement with an independent third party pursuant to which the Group sold its entire issued share capital of, and the shareholder's loan to, a wholly-owned subsidiary together with its entire interest in a Sino-foreign co-operative joint venture enterprise in mainland China which owns Beijing Henderson Centre, being an investment property in Beijing, mainland China. The aggregate consideration for the disposal amounted to HK$3,261 million (subject to adjustment). The disposal was completed on 8 February 2017 and the gain on disposal of subsidiaries attributable to the Group's underlying profit will be recognised by the Group in the year ending 31 December 2017.

Save for the aforementioned, the Group did not undertake any significant acquisitions or any other significant disposals of subsidiaries during the year ended 31 December 2016.

Charge on assets

Assets of the Group's subsidiaries were not charged to any third parties at both 31 December 2016 and 2015, except for certain available-for-sale securities and held-to-maturity debt securities in the aggregate amount of HK$411 million at 31 December 2016 (2015: HK$689 million) which were pledged in favour of certain financial institutions for credit facilities granted to a wholly-owned subsidiary of the Group.

Capital commitments

At 31 December 2016, capital commitments of the Group amounted to HK$27,493 million (2015: HK$27,173 million). In addition, the Group's attributable share of capital commitments undertaken by joint ventures and certain associates at 31 December 2016 amounted to HK$2,122 million (2015: HK$2,221 million).

The Group plans to finance its capital expenditure requirements for the year ending 31 December 2017 by way of the Group's own internally generated cash flow, bank deposits, banking facilities and funds raised from the capital market in previous years.

Contingent liabilities

At 31 December 2016, the Group's contingent liabilities amounted to HK$2,130 million (2015: HK$1,375 million), of which :-

(i) an amount of HK$40 million (2015: HK$38 million) relates to performance bonds and guarantees for the due and proper performance of the obligations undertaken by the Group's subsidiaries and projects ; and

(ii) an amount of HK$2,077 million (2015: HK$1,324 million) relates to guarantees given by the Group to financial institutions on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2016 (and such guarantees will be released upon the issuance of the Building Ownership Certificate).

Employees and remuneration policy

At 31 December 2016, the Group had 8,032 full-time employees (2015: 8,133 full-time employees (adjusted to include daily-paid staffs)).

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs charged to profit or loss for the year ended 31 December 2016 amounted to HK$2,190 million (2015: HK$2,176 million), which comprised (i) staff costs included under directors' remuneration of HK$150 million (2015 : HK$148 million) ; and (ii) staff costs (other than directors' remuneration) of HK$2,040 million (2015 : HK$2,028 million).

OTHER INFORMATION

Closure of Register of Members

1. Book Close for determining the entitlement to attend and vote at the annual general meeting

   The Register of Members of the Company will be closed from Tuesday, 30 May 2017 to Monday, 5 June 2017, both days inclusive, during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 29 May 2017.

2. Book Close for determining the qualification for the proposed final dividend and bonus shares

   The Register of Members of the Company will be closed from Friday, 9 June 2017 to Tuesday, 13 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and bonus shares, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Thursday, 8 June 2017.

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

Except for the issue of bonus shares on 23 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Audit Committee

The Audit Committee met in March 2017 and reviewed the risk management and internal control systems and the annual report for the year ended 31 December 2016.

Corporate Governance

During the year ended 31 December 2016, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. The Board of Directors is of the view that it is in the best interest of the Company that Dr Lee Shau Kee, with his profound expertise in property business, shall continue in his dual capacity as the Chairman and Managing Director.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code.

Forward-Looking Statements

This announcement contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 21 March 2017

As at the date of this announcement, the Board comprises: (1) executive directors: Lee Shau Kee (Chairman), Lee Ka Kit, Lam Ko Yin, Colin, Lee Ka Shing, Yip Ying Chee, John, Suen Kwok Lam, Fung Lee Woon King, Lau Yum Chuen, Eddie, Kwok Ping Ho and Wong Ho Ming, Augustine; (2) non-executive directors: Lee Pui Ling, Angelina and Lee Tat Man; and (3) independent non-executive directors: Kwong Che Keung, Gordon, Ko Ping Keung, Wu King Cheong, Woo Ka Biu, Jackson, Leung Hay Man and Poon Chung Kwong.