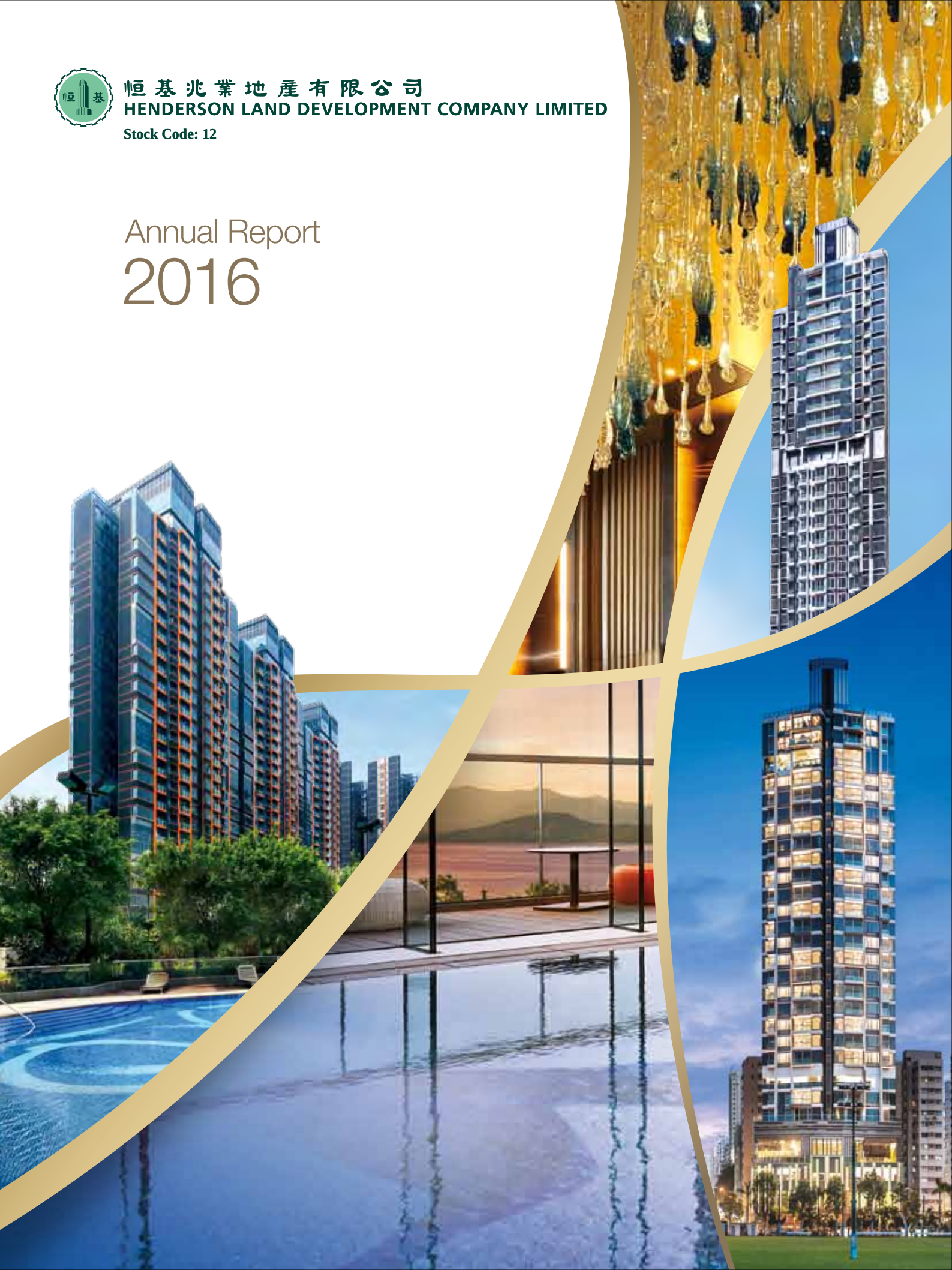




恒基兆業地產有限公司  
HENDERSON LAND DEVELOPMENT COMPANY LIMITED

Stock Code: 12

# Annual Report 2016



# CORPORATE PROFILE

Founded in 1976 by its Chairman, Dr The Honourable Lee Shau Kee, GBM, Henderson Land Development Company Limited is a leading property group with a focus on Hong Kong and mainland China. Its core businesses comprise property development and property investment. In addition, it has direct equity interests in a listed subsidiary, Henderson Investment Limited, and three listed associates, The Hong Kong and China Gas Company Limited (which in turn has equity stakes in a listed subsidiary, Towngas China Company Limited), Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited.

Henderson Land has been listed in Hong Kong since 1981 where it is one of the largest property groups. As at 31 December 2016, Henderson Land had a market capitalisation of HK\$150 billion and the combined market capitalisation of the Company, its listed subsidiary and its associates was HK\$350 billion.

The Company is vertically integrated, with project management, construction, property management, and financial services supporting its core businesses. In all aspects of its operations, Henderson Land strives to add value for its shareholders, customers and the community through its commitment to excellence in product quality and service delivery as well as a continuous focus on sustainability and the environment.

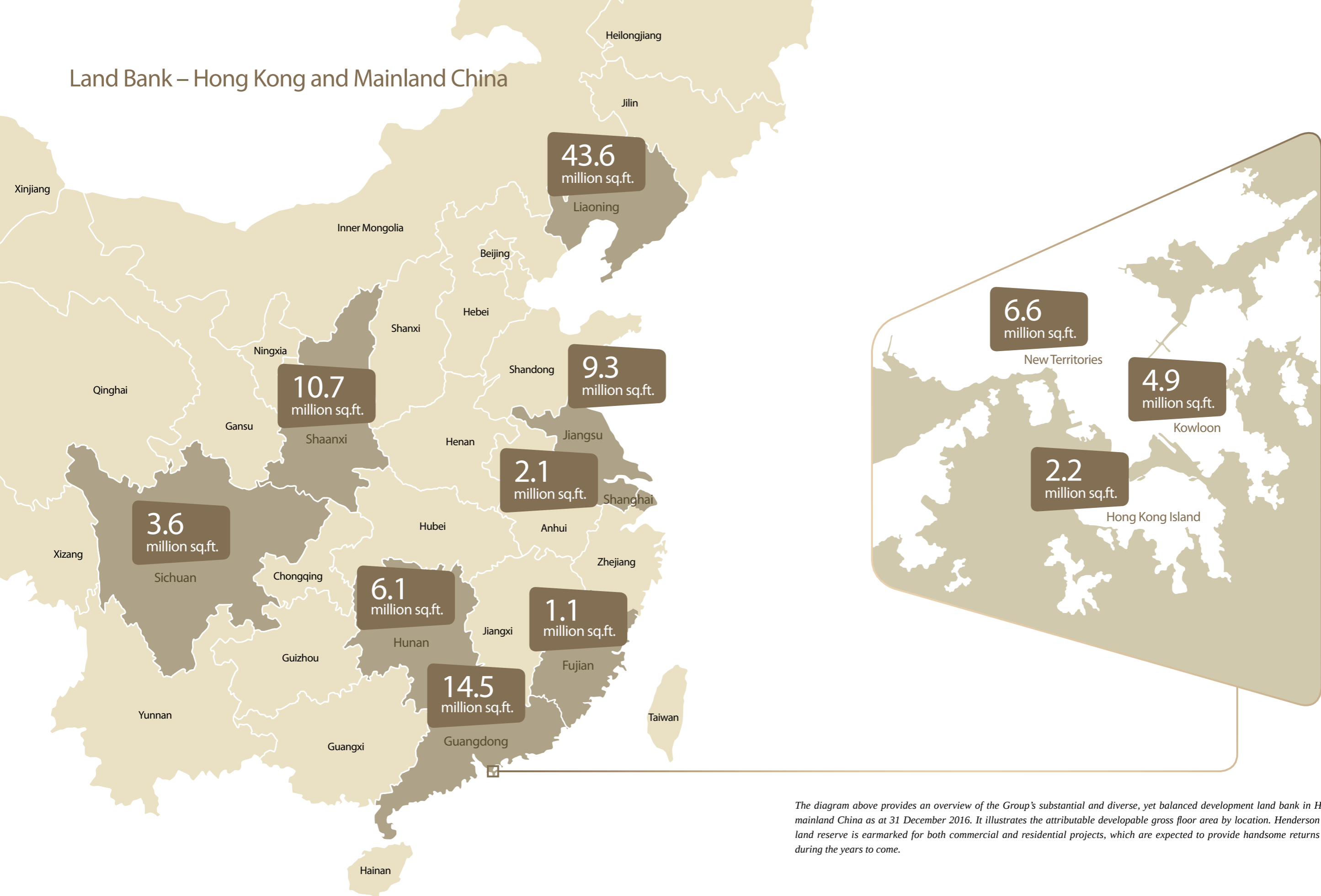
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## Forward-Looking Statements

This annual report 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.

# Land Bank – Hong Kong and Mainland China



The diagram above provides an overview of the Group's substantial and diverse, yet balanced development land bank in Hong Kong and mainland China as at 31 December 2016. It illustrates the attributable developable gross floor area by location. Henderson Land's quality land reserve is earmarked for both commercial and residential projects, which are expected to provide handsome returns for the Group during the years to come.

# Awards & Accolades

Asia Pacific Property Awards 2016-2017  
**International Property Awards**  
*Best Office Architecture Hong Kong – 5-Star (Global Trade Square)  
Office Development Hong Kong – Highly Commended (Global Trade Square)*

China Property Awards 2016  
**PropertyGuru**  
*Best Mixed Use Development (Hong Kong and Macau) (45 Pottinger Street)*

Asia Pacific Leadership in Green Building Awards 2016  
**World Green Building Council**  
*Leadership in Sustainable Design and Performance – Residential (Double Cove)*

Quality Building Award 2016  
**The Hong Kong Institute of Housing, Hong Kong Construction Association, The Hong Kong Institute of Architects and six other institutes/disciplines**  
*Grand Award (Hong Kong Residential [Multiple Buildings] Category) (Double Cove)*

1. Cityscape Awards for Emerging Markets 2016  
**Cityscape Global**  
*Leisure and Hospitality Project Award (Future) – Winner (45 Pottinger Street)*
2. WELL Building Standard  
**International Well Building Institute**  
*Gold Level Pre-certification (Core & Shell) (18 King Wah Road)*
3. Building Environmental Assessment Method (BEAM)  
**HK-BEAM Society**  
*Platinum Standard (Double Cove Phases 2&3 and Golden Centre)*
4. BEAM Plus (New Buildings)  
**Hong Kong Green Building Council**  
*Provisional Platinum Rating (15 Middle Road)  
Provisional Silver Rating (8-30A Ka Shin Street, 856 King's Road, 460 Queen's Road West and Eden Manor)*
5. Leadership in Energy and Environmental Design (LEED)  
**U.S. Green Building Council**  
*Platinum Pre-certification (Core & Shell) (218 Electric Road)*
6. Green Building Award 2016  
**Hong Kong Green Building Council**  
*Merit Award (New Buildings Category) (218 Electric Road)  
Special Citation in Eco-service Infrastructure Network (New Buildings Category) (Double Cove)  
Finalist (Green Building Leadership Category) (Henderson Land)  
Finalist (New Buildings Category) (15 Middle Road)*
7. The Listed Enterprise Excellence Awards 2016  
**CAPITAL WEEKLY**
8. BCI Asia Top 10 Awards 2016  
**BCI Asia**  
*Top 10 Developers Award*
9. International ARC Awards 2016  
**MerComm, Inc.**  
*Bronze Award (Interior Design: Sustainability and CSR Report)  
Honors Award (Cover Photo/Design: Sustainability and CSR Report)*
10. Mercury Excellence Awards 2015-2016  
**MerComm, Inc.**  
*Gold Award (Annual Reports – Overall Presentation: Sustainability and CSR Report)*
11. IAIR Awards 2016  
**IAIR**  
*Company of the Year for Sustainability Property Development Hong Kong*
12. Caring Company 2016/17  
**Hong Kong Council of Social Services**  
*(Henderson Land, Hong Kong Ferry, Miramar, Miramar Travel, Hang Yick, Well Born and Goodwill)*
13. Hang Seng Corporate Sustainability Index Series  
**Hang Seng Indexes Company Limited**  
*Constitute Company (Henderson Land, Hong Kong & China Gas and Towngas China)*
14. HKCA Safety Award 2015  
**Hong Kong Construction Association**  
*HKCA Proactive Safety Contractors Award (E Man)  
HKCA Safety Merit Award (Heng Lai, Heng Shung and Heng Tat)*
15. Sustainable Business Award 2016  
**World Green Organisation**  
*Towngas China*
16. Best Boutique Hotel  
**Travel Weekly Asia**  
*Mira Moon*
17. Corporate Social Responsibility (CSR) Recognition Scheme "Industry Cares" 2016  
**Federation of Hong Kong Industries**  
*Outstanding Caring Award – Enterprise Group (Hong Kong Ferry)*
18. 2015 International Customer Relationship Excellence Awards  
**Asia Pacific Customer Service Consortium**  
*Corporate Environmental Leadership (Property Management) (Hang Yick and Well Born)  
Customer Service Centre (Property Management) (Hang Yick and Well Born)  
14 Consecutive Years of Participation (Well Born)*
19. Excellence in Facility Management Award 2016  
**The Hong Kong Institute of Facility Management**  
*Excellence in Facility Management Award (Retail) (Miramar Shopping Centre)*



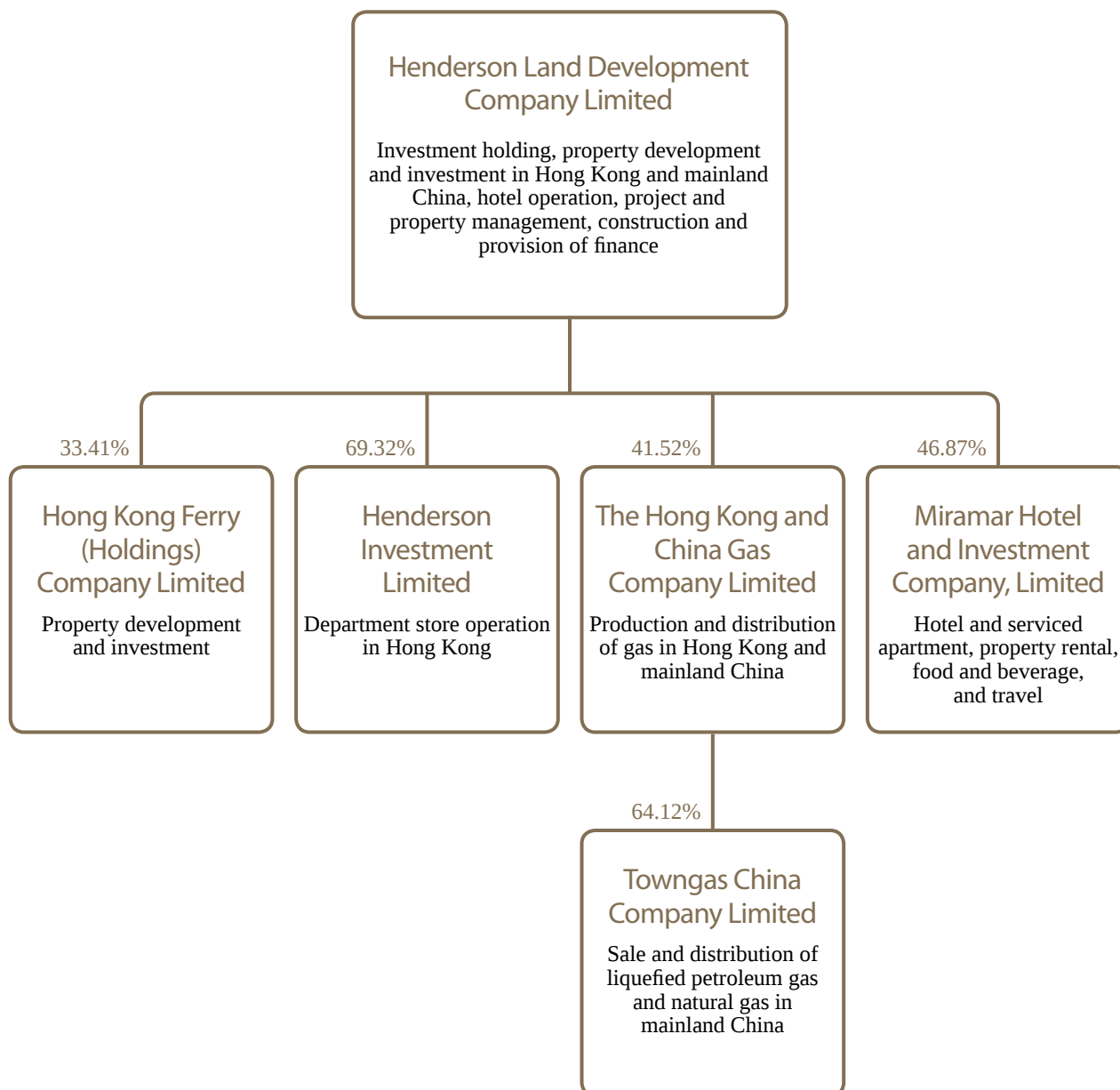
# Group Structure

## Henderson Land Group Structure

Market capitalisation as at 31 December 2016

Henderson Land Development Company Limited: HK\$150 billion

Six listed companies of Henderson Land Group: HK\$350 billion



*Note: all attributable interests (including interests held by associates) shown above were figures as of 31 December 2016.*

# Highlights of 2016 Final Results

For the year ended 31 December				
	Note	2016 HK\$ million	2015 HK\$ million	Change
<b>Property sales</b>				
– Revenue	1	19,569	16,807	+16%
– Pre-tax profit contribution	1	3,987	3,980	+0.2%
<b>Property leasing</b>				
– Gross rental income	1	8,240	8,152	+1%
– Pre-tax net rental income	1	6,481	6,303	+3%
<b>Profit attributable to equity shareholders</b>				
– Underlying profit	2	14,169	11,009	+29%
– Reported profit		21,916	21,326	+3%
		<b>HK\$</b>	<b>HK\$</b>	
<b>Earnings per share</b>				
– Underlying profit	2, 3	3.90	3.03 (restated)	+29%
– Reported profit	3	6.03	5.87 (restated)	+3%
Dividends per share		1.55	1.45	+7%
Allotment of bonus shares		1 share for every 10 shares held	1 share for every 10 shares held	No Change
		<b>At 31 December 2016 HK\$</b>	<b>At 31 December 2015 HK\$</b>	<b>Change</b>
Net asset value per share	3	72.46	69.08 (restated)	+5%
Net debt to shareholders' equity		12.7%	16.0%	-3.3 percentage points
		<b>Million square feet</b>	<b>Million square feet</b>	
<b>Properties in Hong Kong</b>				
Land bank (attributable floor area)				
– Properties under development	4	13.7	13.4	
– Unsold units from major launched projects		0.7	0.9	
<b>Sub-total:</b>		<b>14.4</b>	<b>14.3</b>	
– Completed properties (including hotels) for rental		9.7	10.1	
<b>Total:</b>		<b>24.1</b>	<b>24.4</b>	
New Territories land (attributable land area)				
		<b>44.8</b>	45.0	
<b>Properties in Mainland China</b>				
Land bank (attributable floor area)				
– Properties held for/under development		91.0	116.7	
– Completed stock for sale		3.7	2.9	
– Completed properties for rental		6.4	7.3	
		<b>101.1</b>	126.9	

Note 1: This amount includes the Group's attributable share of contributions from subsidiaries, associates and joint ventures ("JVs").

Note 2: Excluding the Group's attributable share of fair value change (net of tax) of the investment properties held by subsidiaries, associates and JVs.

Note 3: The earnings per share were calculated based on the weighted average number of shares as adjusted for the effect of the bonus issues under Hong Kong Accounting Standard 33, "Earnings Per Share". The net asset value per share at 31 December 2016 was calculated based on the number of issued shares outstanding at 31 December 2016, whilst the net asset value per share at 31 December 2015 was calculated based on the number of issued shares outstanding at 31 December 2015 and as adjusted for the bonus issue effected in 2016.

Note 4: 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.



DOUBLE COVE  
Ma On Shan, Hong Kong



# 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).

A portrait of Dr. The Honourable Lee Shau Kee, Chairman and Managing Director of GBM. He is a middle-aged man with dark hair, smiling, wearing a dark suit, a light-colored shirt, and a patterned tie. He is seated in a brown leather armchair, with his hands clasped in his lap. The background is plain white.

**Dr The Honourable Lee Shau Kee, GBM**  
*Chairman and Managing Director*

### 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 of the Company 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 Zutton" 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.



*Eden Manor, Kwun Tung, Hong Kong (artist's impression)*

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:

## Chairman's Statement

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)	Remarks
<b>(A) Area available for sale in 2017:</b>				
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
		<b>Sub-total:</b>	<b>2.0</b>	Of which an attributable floor area of about 800,000 sq. ft. was sourced from urban redevelopment projects
<b>(B) Projects in Urban Areas:</b>				
3.	Existing urban redevelopment projects	(Table 3)	5	1.4
4.	Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated	(Table 4)	17	1.8
5.	Newly-acquired Urban Redevelopment Projects – with 80% or above ownership secured	(Table 5)	22	2.0
6.	Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured	(Table 6)	30	0.8
7.	15 Middle Road Tsim Sha Tsui, Kowloon (acquired through public tender)		1	0.3
		<b>Sub-total:</b>	<b>6.3</b>	
		<b>Total for the above categories (A) and (B) development projects:</b>	<b>8.3</b>	
<b>(C) Major development projects in the New Territories:</b>				
–	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 No. 524			0.1
–	Others			0.3
		<b>Sub-total:</b>	<b>6.1</b>	
		<b>Total for categories (A) to (C):</b>	<b>14.4</b>	

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.

## Chairman's Statement

(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

## Chairman's Statement

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.)	
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 Zutton* 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 and 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)	
<b>Sub-total:</b>						<b>772</b>	<b>891,548</b>
<b>Area attributable to the Group:</b>							<b>675,438</b>

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.

## Chairman's Statement

(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 No. 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)
					<b>Total:</b>	<b>1,904</b>	<b>1,335,660</b>
					<b>Area attributable to the Group:</b>		<b>1,331,615</b>

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.

## Chairman's Statement

(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
	<b>Total:</b>	<b>905,459</b>	<b>4,613,545</b>		<b>1,421,716</b>

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.



## Chairman's Statement

(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.)
<b>Hong Kong</b>		
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
<b>Sub-total:</b>	<b>70,587</b>	<b>479,511</b>
<b>Kowloon</b>		
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
<b>Sub-total:</b>	<b>155,900</b>	<b>1,307,417</b>
<b>Total:</b>	<b>226,487</b>	<b>1,786,928</b>

Note 1: To be held for rental purposes upon completion of development.

Note 2: Developable area may be subject to payment of land premium.

## Chairman's Statement

(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.)
<b>Hong Kong</b>		
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
<b>Sub-total:</b>	<b>65,127</b>	<b>462,589</b>
<b>Kowloon</b>		
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

## Chairman's Statement

Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)
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
<b>Sub-total:</b>	<b>178,304</b>	<b>1,538,178</b>
<b>Total:</b>	<b>243,431</b>	<b>2,000,767</b>

### (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 ( <i>Note</i> )	13.7
Unsold units from major launched projects	0.7
<b>Sub-total:</b>	<b>14.4</b>
Completed properties (including hotels) for rental	9.7
<b>Total:</b>	<b>24.1</b>

*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.

## Chairman's Statement

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.



ifc mall, Central, Hong Kong

## 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	0.4	5
Residential and hotel apartment	0.4	5
<b>Total:</b>	<b>8.8</b>	<b>100</b>

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
<b>Total:</b>	<b>8.8</b>	<b>100</b>

## Chairman's Statement

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.



*Metro City Phase II, Tseung Kwan O, Hong Kong*





*Caprice, The Four Seasons Hotel Hong Kong*

## 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.

## Chairman's Statement

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
					<b>Total:</b>	<b>606,479</b>

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.

## Chairman's Statement

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
	<b>Total:</b>		<b>11.1</b>

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.

## Chairman's Statement

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.)
<b>Prime cities</b>	
Shanghai	2.1
Guangzhou	14.5
<b>Sub-total:</b>	<b>16.6</b>
<b>Second-tier cities</b>	
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
<b>Sub-total:</b>	<b>74.4</b>
<b>Total:</b>	<b>91.0</b>

\* 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
<b>Total:</b>	<b>91.0</b>	<b>100</b>

## Chairman's Statement

### 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.



*Henderson 688, Jingan District, Shanghai*

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. “2 Grand Gateway” 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.

## Chairman's Statement

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 Square 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, “oncinet”, 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.



*Citistore*

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 this 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,



*ECO coal chemical plant in Inner Mongolia*

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.

## Chairman's Statement

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%.



*Green Code, Fanling, Hong Kong*

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.

## Chairman's Statement

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®) programme, 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 refurbishing 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 Shopping Centre, Tsim Sha Tsui, Hong Kong

## Chairman's Statement

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

## Chairman's Statement

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 Square 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



} {  
THE H COLLECTION

High Park Grand  
Mong Kok, Hong Kong

## Progress of Major Development Projects

Status of property developments with anticipated completion during the period to the end of 2019

AXIS  
200 Ma Tau Wai Road  
Hung Hom  
(100% owned)

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**Site area**

4,905 square feet

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**Gross floor area**

41,314 square feet

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**Residential units**

120

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**Completion**

27 January 2017

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*AXIS, Hung Hom, Hong Kong (artist's impression)*

Adjacent to MTR Ma Tau Wai station of the Shatin to Central Link, which is now under construction, “AXIS” is a 26-storey residential-cum-commercial development. With an array of amenities (such as Hoi Sham Park and Ko Shan Theatre) within walking distance, this development meets the discerning tastes of urban dwellers.

PARKER33  
33 Shing On Street  
Shau Kei Wan  
(100% owned)

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**Site area**

7,513 square feet

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**Gross floor area**

80,090 square feet

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**Residential units**

234

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**Completion**

1 March 2017

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*PARKER33, Shau Kei Wan, Hong Kong (artist's impression)*

Located in Island East with MTR Sai Wan Ho station in its proximity, this 30-storey residential-cum-commercial property includes certain upper floor residences which enjoy stunning Victoria Harbour views.



Eltanin • Square Mile  
11 Li Tak Street  
Mong Kok  
(100% owned)

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**Site area**

19,600 square feet

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**Gross floor area**

176,373 square feet

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**Residential units**

448

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**Expected completion**

Second quarter of 2017

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*Eltanin • Square Mile, Mong Kok, Hong Kong (artist's impression)*

Conveniently located in West Kowloon adjacent to MTR Olympic station, this innovatory development features a modern streamlined design, passages connecting subsequent phases, landscaped walkways and an open-air piazza for cultural and leisure activities. The site is now at superstructure stage and upon completion, this new hotspot will revitalise the streets and become an ideal living hub offering business vitality and residential relaxation. Of the various major developments in the district now being undertaken by the Group, “Eltanin • Square Mile” is the first project to be launched. Its 40,000-square foot retail mall will further strengthen West Kowloon’s emerging reputation as a “Diners Paradise” thus bringing about a more diversified and satisfying consumer experience upon its scheduled opening by the end of 2017.

The Zutton  
50 Ma Tau Kok Road  
(100% owned)

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**Site area**

11,400 square feet

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**Gross floor area**

102,570 square feet

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**Residential units**

300

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**Expected completion**

Second quarter of 2017

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*The Zutton, Ma Tau Kok, Hong Kong (artist's impression)*

Adjacent to the MTR To Kwa Wan station of the Shatin to Central Link, which is now under construction, “The Zutton” will provide 300 residential units and a two-storey shopping podium. According to the Government’s Kai Tak Development Plan, an array of amenities including a multi-purpose sports complex and a metro park will be in its close proximity.

## Review of Operations – Business in Hong Kong • Progress of Major Development Projects

18 King Wah Road  
North Point  
(100% owned)

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**Site area**

52,689 square feet

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**Gross floor area**

329,752 square feet

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**Expected completion**

Second quarter of 2017

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*18 King Wah Road, North Point, Hong Kong*

Superstructure works at a prime waterfront site on King Wah Road, North Point are now under way and it will be 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 completion. Pre-leasing marketing has been encouraging, with many multinational corporations and mainland enterprises enquiring about the development.

38 Hillwood Road  
Tsim Sha Tsui  
(100% owned)

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**Site area**

4,586 square feet

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**Gross floor area**

55,031 square feet

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**Expected completion**

Third quarter of 2017

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*38 Hillwood Road, Tsim Sha Tsui, Hong Kong (artist's impression)*

The prime location of being close to MTR Jordan station, together with its innovative design and high specifications make this 21-storey Ginza-style commercial project a new benchmark in the vibrant Tsim Sha Tsui district. Superstructure work is in progress.

## Review of Operations – Business in Hong Kong • Progress of Major Development Projects

Harbour Park  
208 Tung Chau Street  
Cheung Sha Wan  
(33.41% owned)

---

**Site area**

6,528 square feet

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**Gross floor area**

55,077 square feet

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**Residential units**

161

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**Expected completion**

Fourth quarter of 2017

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*Harbour Park, Cheung Sha Wan, Hong Kong (artist's impression)*

This 26-storey residential-cum-commercial development, commands magnificent views of Victoria Harbour and surrounding green parks. Only minutes from MTR Nam Cheong station, the transport nexus of West Rail and Tung Chung lines, “Harbour Park” enjoys a comprehensive transportation network. Superstructure work is in progress and it was launched for pre-sale in January 2016.

Lot No. 1752 in DD No. 122  
Tong Yan San Tsuen  
Yuen Long  
(100% owned)

---

**Site area**

27,864 square feet

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**Gross floor area**

27,864 square feet

---

**Residential units**

16

---

**Expected completion**

Fourth quarter of 2017

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*Lot No. 1752 in DD No. 122, Tong Yan San Tsuen, Yuen Long, Hong Kong (artist's impression)*

Surrounded by lush greenery in a tranquil environment, the site will be developed into 16 three-storey villas. Superstructure work is in progress.

## Review of Operations – Business in Hong Kong • Progress of Major Development Projects

Wellesley  
23 Robinson Road  
Mid-Levels  
(25.07% owned\*)

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**Site area**

31,380 square feet

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**Gross floor area**

156,901 square feet

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**Residential units**

90

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**Expected completion**

First quarter of 2018

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Wellesley, Mid-Levels, Hong Kong (artist's impression)

Located in the prestigious Mid-Levels district, “Wellesley” is a 30-storey premier residential development and the market response was positive when it was offered for presale in January 2016. Construction of the superstructure is in progress.

(\*the Group's interest is 50% 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”.)

45 Pottinger Street  
Central  
(19.10% owned)

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**Site area**

9,067 square feet

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**Gross floor area**

135,995 square feet

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**Expected completion**

Second quarter of 2018

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45 Pottinger Street, Central, Hong Kong (artist's impression)

This commercial project boasts a strategic location right at the heart of Central and is well-served by the MTR and other traffic arteries in the vicinity. Located very close to Lan Kwai Fong, popular with high net worth customers, it will create a tasteful shopping and entertainment community, adding further synergy to the fine dining and clubbing scene nearby. Construction has proceeded to the superstructure stage and it will be held for rental purpose upon its completion.

## Review of Operations – Business in Hong Kong • Progress of Major Development Projects

Seven Victory Avenue  
7 Victory Avenue  
Ho Man Tin  
(100% owned)

---

**Site area**

9,865 square feet

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**Gross floor area**

83,245 square feet

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**Residential units**

250

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**Expected completion**

Third quarter of 2018

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*Seven Victory Avenue, Ho Man Tin, Hong Kong (artist's impression)*

Adjacent to the upmarket residential neighbourhood of Kadoorie Hill and within easy reach of MTR Mong Kok East station, this 27-storey residential-cum-commercial development offers residents both tranquility and modern lifestyle convenience. Construction has proceeded to the superstructure stage and the sales performance has been satisfactory since its launch for pre-sale in October 2016.

Park One  
1, 3 Nam Cheong Street and  
180 Tung Chau Street  
Cheung Sha Wan (100% owned)

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**Site area**

8,559 square feet

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**Gross floor area**

77,029 square feet

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**Residential units**

129

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**Expected completion**

Fourth quarter of 2018

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*Park One, Cheung Sha Wan, Hong Kong (artist's impression)*

“Park One” is close to Tung Chau Street Park and Nam Cheong Park, allowing residents to embrace the lush environment of the neighbourhood. Besides, a shopping arcade and MTR station are both within walking distance, offering unrivalled living convenience to its residents. Superstructure work is in progress and this 38-storey residential-cum-commercial tower is meticulously designed to make the most of its magnificent sea views. It was put up for pre-sale in October 2016.

## Review of Operations – Business in Hong Kong • Progress of Major Development Projects

Yuen Long Town Lot No. 527  
(79.03% owned)

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**Site area**

6,131 square feet

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**Gross floor area**

21,453 square feet

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**Residential units**

63

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**Expected completion**

First quarter of 2019

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*Yuen Long Town Lot No. 527, Yuen Long, Hong Kong (artist's impression)*

Situated adjacent to the Group's project "The Reach", this site will be developed into a residential-cum-commercial tower. Foundation work is under way.

856 King's Road  
North Point  
(100% owned)

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**Site area**

17,720 square feet

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**Gross floor area**

177,783 square feet

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**Residential units**

464

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**Expected completion**

First quarter of 2019

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*856 King's Road, North Point, Hong Kong (artist's impression)*

Located close to the MTR Quarry Bay station, this 32-storey residential-cum-commercial development will allow upper floor residences to enjoy panoramic views of the Victoria Harbour and lush greenery of Braemar Hill. Superstructure work has already commenced.

## Review of Operations – Business in Hong Kong • Progress of Major Development Projects

8-30A Ka Shin Street  
Tai Kok Tsui  
(100% owned)

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**Site area**

19,519 square feet

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**Gross floor area**

175,555 square feet

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**Residential units**

514

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**Expected completion**

First quarter of 2019

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*8-30A Ka Shin Street, Tai Kok Tsui, Hong Kong (artist's impression)*

Located next to the Group's project "Eltanin • Square Mile" with the MTR Olympic station in its proximity, this commercial-cum-residential development is surrounded by a vibrant neighbourhood with various public facilities and shopping arcades. Superstructure work is in progress.

Eden Manor  
88 Castle Peak Road  
Kwu Tung  
(100% owned)

---

**Site area**

154,280 square feet

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**Gross floor area**

555,399 square feet

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**Residential units**

590

---

**Expected completion**

Second quarter of 2019

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*Eden Manor, Kwu Tung, Hong Kong (artist's impression)*

Located in a unique enclave with the Hong Kong Golf Club, Fanling Lodge and The Hong Kong Jockey Club – Beas River Country Club in its proximity, "Eden Manor" comprises 25 villas and eight residential towers. Thanks to the shimmering glass curtain walls that maximise light and visibility, residents can take in sprawling open views of lush greenery. Construction has proceeded to the superstructure stage and it was launched for pre-sale in March 2017.

## Review of Operations – Business in Hong Kong • Progress of Major Development Projects

12-18 Tin Wan Street  
Aberdeen  
(100% owned)

---

**Site area**

4,060 square feet

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**Gross floor area**

37,566 square feet

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**Residential units**

142

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**Expected completion**

Second quarter of 2019

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*12-18 Tin Wan Street, Aberdeen, Hong Kong (artist's impression)*

Foundation work is in progress and it will be developed into a 24-storey boutique apartment tower with some ground-level retail shops.

460 Queen's Road West  
Western District  
(100% owned)

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**Site area**

28,027 square feet

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**Gross floor area**

272,301 square feet

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**Residential units**

645

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**Expected completion**

Third quarter of 2019

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With many prestigious schools just steps away, this prime site will be developed into a 35-storey residential-cum-commercial property atop MTR "HKU" station. Foundation work has recently been completed.



218 Electric Road  
North Point  
(100% owned)

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**Site area**

9,600 square feet

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**Gross floor area**

143,993 square feet

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**Expected completion**

Fourth quarter of 2019

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*218 Electric Road, North Point, Hong Kong (artist's impression)*

The redevelopment of the former “Newton Hotel Hong Kong” will consist of a 22-storey Grade-A office tower and two floors of shops, supported by a podium garden and a two-level underground car park. Its foundation work is under way. Located near an MTR station with pristine views of Victoria Harbour, this project will form a business hub in North Point with the nearby “AIA Tower” and the waterfront Grade-A office tower on King Wah Road.

# Location of Various Categories of Development Projects

## Major Development Projects with Unsold Units Offered for Sale

- 1 Double Cove (Phases 1-5)
- 2 The Reach
- 3 Green Code
- 4 High Park
- 5 High Point
- 6 High Place
- 7 39 Conduit Road
- 8 Hill Paramount
- 9 Green Lodge
- 10 Metro6
- 11 High One Grand
- 12 High One
- 13 H • Bonaire
- 14 Jones Hive
- 15 High Park Grand
- 16 AXIS
- 17 PARKER33
- 18 Eltanin • Square Mile
- 19 The Zutton
- 20 Harbour Park
- 21 Wellesley
- 22 Park One
- 23 Seven Victory Avenue
- 24 Global Gateway Tower
- 25 E-Trade Plaza

## Projects Pending Sale in 2017

- 26 Eden Manor
- 27 Mega Cube
- 28 460 Queen's Road West, Western District
- 29 Yuen Long Town Lot No. 527
- 30 856 King's Road, North Point
- 31 12-18 Tin Wan Street, Aberdeen
- 32 38 Hillwood Road, Tsim Sha Tsui
- 33 The Globe

## Existing Urban Redevelopment Projects

- 34 45 Pottinger Street, Central
- 35 29A Lugard Road, The Peak
- 36 18 King Wah Road, North Point
- 37 218 Electric Road, North Point
- 38 Yau Tong Bay

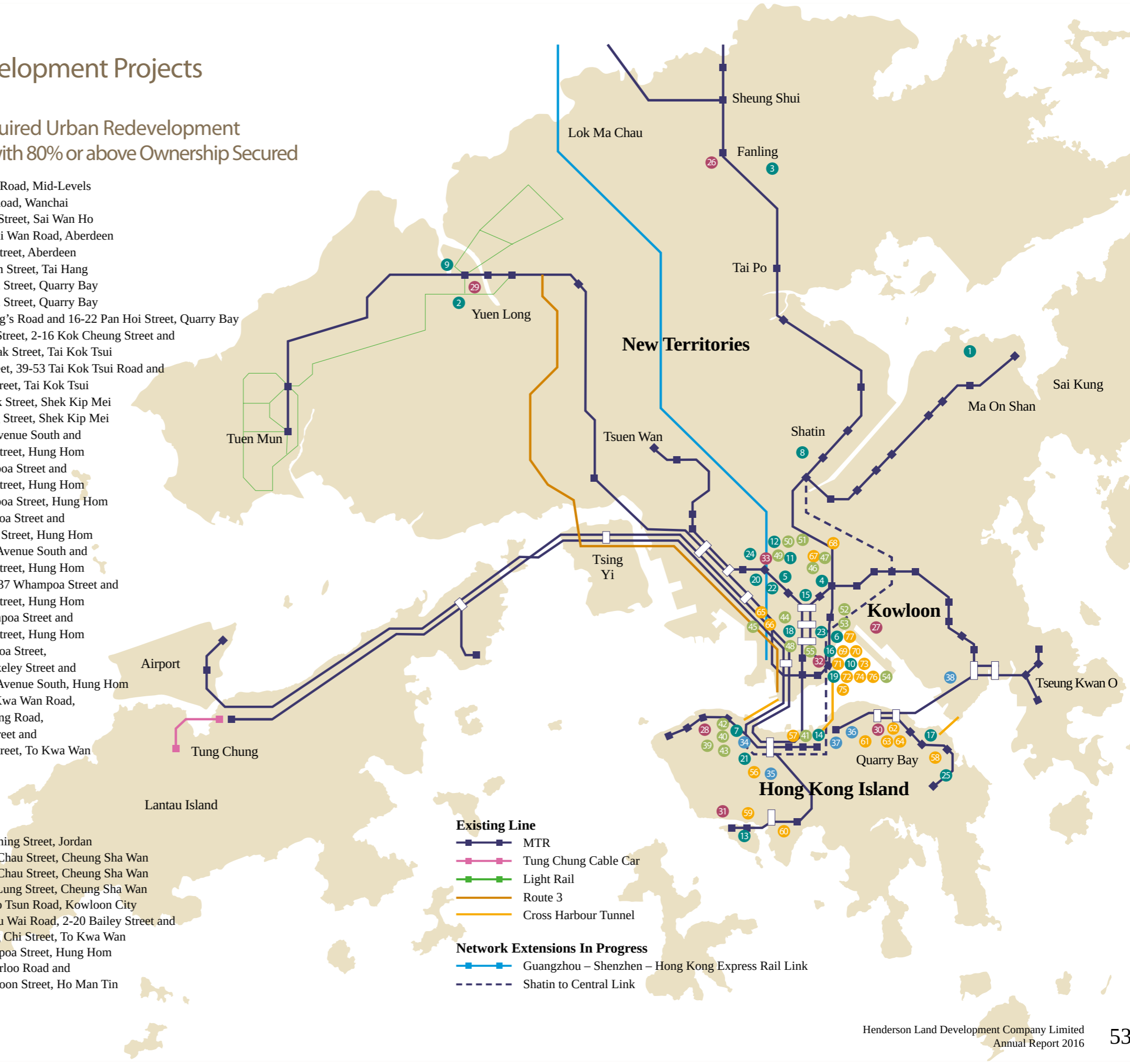
## Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated

- 39 1-17 Chung Ching Street, Sheung Wan
- 40 1-4 Ladder Street Terrace, Sheung Wan
- 41 206-212 Johnston Road, Wanchai
- 42 62C Robinson Road and 6 Seymour Terrace, Mid-Levels
- 43 4A-4P Seymour Road, Mid Levels
- 44 8-30A Ka Shin Street, Tai Kok Tsui
- 45 25-29 Kok Cheung Street, Tai Kok Tsui
- 46 456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po
- 47 1-15 Berwick Street and 202-220 Nam Cheong Street, Shek Kip Mei

## Newly-acquired Urban Redevelopment Projects – with 80% or above Ownership Secured

- 56 73-73E Caine Road, Mid-Levels
- 57 13-17 Wood Road, Wanchai
- 58 2 Tai Cheong Street, Sai Wan Ho
- 59 83-95 Shek Pai Wan Road, Aberdeen
- 60 4-6 Tin Wan Street, Aberdeen
- 61 9-13 Sun Chun Street, Tai Hang
- 62 24-46 Pan Hoi Street, Quarry Bay
- 63 72-94 Pan Hoi Street, Quarry Bay
- 64 983-987A King's Road and 16-22 Pan Hoi Street, Quarry Bay
- 65 35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui
- 66 1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui
- 67 17-27 Berwick Street, Shek Kip Mei
- 68 3-10 Yiu Tung Street, Shek Kip Mei
- 69 2-28 Gillies Avenue South and 76-78 Baker Street, Hung Hom
- 70 1-21C Whampoa Street and 80-86 Baker Street, Hung Hom
- 71 2-16A Whampoa Street, Hung Hom
- 72 22-24 Whampoa Street and 88-90A Baker Street, Hung Hom
- 73 30-44 Gillies Avenue South and 75-77 Baker Street, Hung Hom
- 74 23-29 and 35-37 Whampoa Street and 79-81 Baker Street, Hung Hom
- 75 26-40A Whampoa Street and 83-85 Baker Street, Hung Hom
- 76 39-41 Whampoa Street, 12A-22A Bulkeley Street and 46-50 Gillies Avenue South, Hung Hom
- 77 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

- 48 2A-2F Tak Shing Street, Jordan
- 49 342-348 Un Chau Street, Cheung Sha Wan
- 50 352-354 Un Chau Street, Cheung Sha Wan
- 51 11-19 Wing Lung Street, Cheung Sha Wan
- 52 69-83 Fuk Lo Tsun Road, Kowloon City
- 53 57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan
- 54 31-33 Whampoa Street, Hung Hom
- 55 74-74C Waterloo Road and 15-25 Yau Moon Street, Ho Man Tin



**Existing Line**

- MTR
- Tung Chung Cable Car
- Light Rail
- Route 3
- Cross Harbour Tunnel

**Network Extensions In Progress**

- Guangzhou – Shenzhen – Hong Kong Express Rail Link
- - - Shatin to Central Link

## Major Completed Investment Properties

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet)					Attributable no. of carpark
				Residential/ Hotel Serviced Suite	Commercial	Office	Industrial	Total	
<b>Hong Kong Island</b>									
Eva Court	36 MacDonnell Road, Mid-Levels	2895	100.00	108,214	–	–	–	108,214	49
FWD Financial Centre	308-320 Des Voeux Road Central, Central	2865	100.00	–	31,987	182,373	–	214,360	–
AIA Tower	183 Electric Road, North Point	2047	100.00	–	22,338	490,072	–	512,410	207
One International Finance Centre	1 Harbour View Street, Central	2047	40.77	–	53,465	319,833	–	373,298	71
Two International Finance Centre (excluding levels of 33 to 52, 55, 56 and 77 to 88)	8 Finance Street, Central	2047	40.77	–	207,474	451,857	–	659,331	189
Four Seasons Place	8 Finance Street, Central	2047	40.77	216,103	–	–	–	216,103	7
Mira Moon	388-390 Jaffe Road, Wanchai	2026	100.00	66,128	–	–	–	66,128	–
<b>Kowloon</b>									
Hollywood Plaza	610 Nathan Road, Mong Kok	2047	33.33	–	33,511	64,422	–	97,933	–
Winning Centre	29 Tai Yau Street, San Po Kong	2047	100.00	–	–	–	150,212	150,212	–
Well Tech Centre	9 Pat Tat Street, San Po Kong	2047	100.00	–	–	161,998	–	161,998	40
Manulife Financial Centre	223-231 Wai Yip Street, Kwun Tong	2050	88.50	–	47,860	919,004	–	966,864	394
78 Hung To Road	78 Hung To Road, Kwun Tong	2047	100.00	–	–	–	119,995	119,995	16
52 Hung To Road (formerly known as Bamboos Centre)	52 Hung To Road, Kwun Tong	2047	100.00	–	–	–	125,114	125,114	–
AIA Financial Centre	712 Prince Edward Road East, San Po Kong	2047	100.00	–	–	216,593	–	216,593	70
Cité 33	33 Lai Chi Kok Road, Mong Kok	2026	100.00	–	13,620	–	–	13,620	–
The Sparkle	500 Tung Chau Street, Cheung Sha Wan	2055	100.00	–	53,443	–	–	53,443	–
8 Observatory Road	8 Observatory Road, Tsim Sha Tsui	2064	50.00	–	45,312	37,273	–	82,585	32
<b>New Territories</b>									
Fanling Centre	33 San Wan Road, Fanling	2047	100.00	–	151,513	–	–	151,513	302
Flora Plaza	88 Pak Wo Road, Fanling	2047	60.00	–	94,657	–	–	94,657	130
The Trend Plaza	Tuen Mun Heung Sze Wui Road, Tuen Mun	2047	100.00	–	195,280	–	–	195,280	78
Marina Cove	Lot No. 526 in D.D. No. 210, Sai Kung	2047	40.00	–	9,566 (Note)	–	–	9,566	151
KOLOUR • Tsuen Wan I	68 Chung On Street, Tsuen Wan	2047	74.96	–	138,555	156,981	–	295,536	100
KOLOUR • Tsuen Wan II	145-165 Castle Peak Road, Tsuen Wan	2047	100.00	–	155,022	–	–	155,022	85

## Review of Operations – Business in Hong Kong • Major Completed Investment Properties

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet)					Attributable no. of carpark
				Residential/ Hotel Serviced Suite	Commercial	Office	Industrial	Total	
Skyline Plaza	88 Tai Ho Road, Tsuen Wan	2047	100.00	–	154,259	–	–	154,259	104
Shatin Centre	2-16 Wang Pok Street, Sha Tin	2047	100.00	–	100,029	–	–	100,029	408
Shatin Plaza	21-27 Shatin Centre Street, Sha Tin	2047	77.55	–	114,730	–	–	114,730	67
Blocks A & B, Sunshine City	18 On Shing Street, Ma On Shan	2047	100.00	–	9,305	–	–	9,305	–
Blocks C & D, Sunshine City	22 On Shing Street, Ma On Shan	2047	100.00	–	10,236	–	–	10,236	–
Blocks N, P, Q & R, Sunshine City	8 On Shing Street, Ma On Shan	2047	100.00	–	58,881	–	–	58,881	186
Sunshine City Plaza	18 On Luk Street, Ma On Shan	2047	100.00	–	532,637	–	–	532,637	829
Sunshine Bazaar	628 Sai Sha Road, Ma On Shan	2047	100.00	–	79,642	–	–	79,642	224
KOLOUR • Yuen Long	1 Kau Yuk Road, Yuen Long	2047	100.00	–	140,341	–	–	140,341	51
La Cité Noble Shopping Arcade	1 Ngan O Road, Tseung Kwan O	2047	100.00	–	35,186	–	–	35,186	–
Dawning Views Plaza	23 Yat Ming Road, Fanling	2047	100.00	–	87,766	–	–	87,766	–
Metro City Phase II Shopping Arcade	8 Yan King Road, Tseung Kwan O	2047	100.00	–	956,849	–	–	956,849	669
The Metropolis, Metro City Phase III Shopping Arcade	8 Mau Yip Road, Tseung Kwan O	2047	100.00	–	266,954	–	–	266,954	233
Citygate	20 Tat Tung Road, Tung Chung, Lantau Island	2047	20.00	–	92,536	32,280	–	124,816	233
The Sherwood	8 Fuk Hang Tsuen Road, Tuen Mun	2052	100.00	–	30,139	–	–	30,139	250
Double Cove Place	8 Wu Kai Sha Road, Ma On Shan	2060	59.00	–	58,131	–	–	58,131	328
			<b>Total:</b>	<b>390,445</b>	<b>3,981,224</b>	<b>3,032,686</b>	<b>395,321</b>	<b>7,799,676</b>	<b>5,503</b>

Note: In addition, there are 121 pontoons and 30 hardstand spaces attributable to the Group

# Major Completed Investment Properties

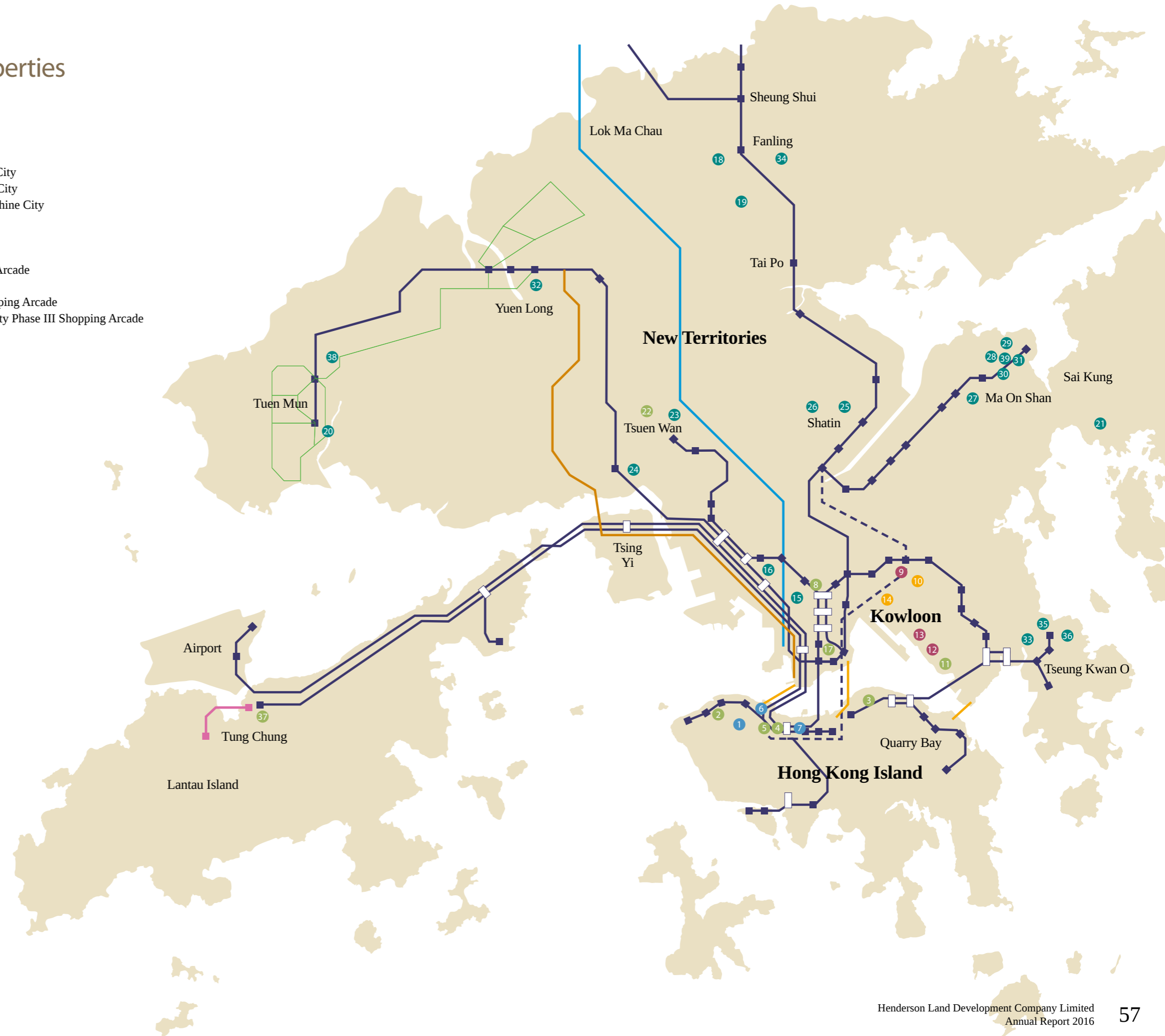
## Major Completed Investment Properties

- |                                    |   |
|------------------------------------|---|
| 1 Eva Court                        | 26 Shatin Plaza   |
| 2 FWD Financial Centre             | 27 Blocks A & B, Sunshine City                          |
| 3 AIA Tower                        | 28 Blocks C & D, Sunshine City                          |
| 4 One International Finance Centre | 29 Blocks N, P, Q & R, Sunshine City                    |
| 5 Two International Finance Centre | 30 Sunshine City Plaza                                  |
| 6 Four Seasons Place               | 31 Sunshine Bazaar                                      |
| 7 Mira Moon                        | 32 KOLOUR • Yuen Long                                   |
| 8 Hollywood Plaza                  | 33 La Cité Noble Shopping Arcade                        |
| 9 Winning Centre                   | 34 Dawning Views Plaza                                  |
| 10 Well Tech Centre                | 35 Metro City Phase II Shopping Arcade                  |
| 11 Manulife Financial Centre       | 36 The Metropolis, Metro City Phase III Shopping Arcade |
| 12 78 Hung To Road                 | 37 Citygate   |
| 13 52 Hung To Road                 | 38 The Sherwood   |
| 14 AIA Financial Centre            | 39 Double Cove Place                                    |
| 15 Cité 33                         |   |
| 16 The Sparkle                     |   |
| 17 8 Observatory Road              |   |
| 18 Fanling Centre                  |   |
| 19 Flora Plaza                     |   |
| 20 The Trend Plaza                 |   |
| 21 Marina Cove                     |   |
| 22 KOLOUR • Tsuen Wan I            |   |
| 23 KOLOUR • Tsuen Wan II           |   |
| 24 Skyline Plaza                   |   |
| 25 Shatin Centre                   |   |

- Residential / Hotel Serviced Suites
- Commercial
- Office
- Industrial
- Commercial & Office

- Existing Line**
- MTR
  - Tung Chung Cable Car
  - Light Rail
  - Route 3
  - Cross Harbour Tunnel

- Network Extensions In Progress**
- Guangzhou – Shenzhen – Hong Kong Express Rail Link
  - - - Shatin to Central Link





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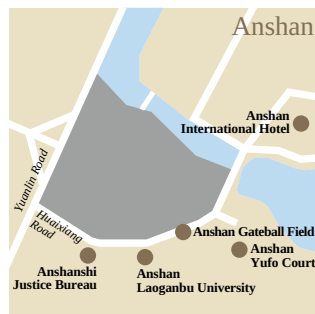
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— THE ISLAND —

Island Palace  
Yixing

# Progress of Major Development Projects

## Anshan

Arc De Triomphe (100% owned)

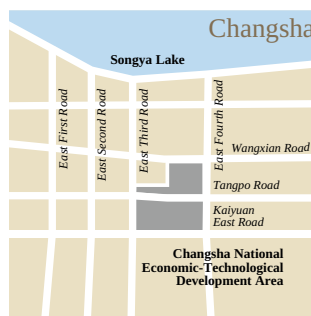


*Arc De Triomphe, Anshan (artist's impression)*

Adjacent to the scenic Yufoshan municipal park, a site in the city centre will be developed in phases into a high-end residential community with a total gross floor area of approximately 3,500,000 square feet. Phase 1 is a sales centre. Phase 2, with about 1,200,000 square feet of residences and 18,000 square feet of retail shops, commenced construction in 2013 and the completed flats were delivered to buyers in October 2016. Construction of Phase 3, comprising approximately 710,000 square feet of residential area, commenced in August 2016. Phase 4 of the development is under planning.

## Changsha

The Arch of Triumph (100% owned\*)



*The Arch of Triumph, Changsha*

The Arch of Triumph is a community development with around 6,700,000 square feet of premium residential units to be built in three phases. Its 33-storey Arc de Triomphe-style building is a landmark development in this new town of Xingsha. Phases 1, 2A, 2B and 3A were completed and delivered to buyers already. A prestigious school in Changsha, namely Datong Xingsha Primary School, has also been built and become operational. The remaining Phase will provide approximately 2,050,000 square feet of residential area, in addition to 320,000 square feet of serviced apartments and commercial facilities upon their successive completion during the period from 2018 to 2019.

(\*CIFI Holdings (Group) Co. Ltd. ("CIFI") will participate in the development of Phases 3B and 3C and will share 30% of their costs and economic interests.)

## Chengdu

Chengdu ICC (30% owned)

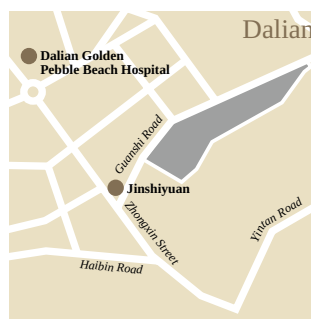


Chengdu ICC, Chengdu

Chengdu ICC is situated in a prime area of Dongda Road commercial and financial district near the Second Ring Road and River Shahe, with a panoramic view of Tazishan Park. It will be connected to a metro station linking Line No. 2 and the proposed Line No. 8, just two stops from the Chengdu East rail station, offering easy access to other parts of the country. This composite development will have over 13,000,000 square feet of gross floor area and will include Grade-A offices, modern shopping malls, commercial facilities and luxury residences. Phase 1 deluxe residential development “Sirius”, with about 1,600,000 square feet of gross floor area, was sold out, with the apartments delivered to buyers upon completion. Phase 2, which is an integrated development of over 5,000,000 square feet, is now under construction. Some 540 residential units have been launched and the market response was overwhelming.

## Dalian

Henderson • Country Eagle Jin Shi Tan Project (50% owned)



Henderson • Country Eagle Jin Shi Tan Project, Dalian

Located in Jin Shi Tan scenic spot with a light-rail station and Maple Leaf International School in the proximity, a site of about 3,200,000 square feet will be developed in phases into a low-density luxury residential project. Complemented by a resident clubhouse and commercial facilities, it will provide an aggregate gross floor area of about 1,400,000 square feet for about 1,600 households, of which over 900 residences and commercial facilities under Phase 1 were completed and delivered to buyers. Construction of Phase 2 is in progress and it is planned for sales launch in 2017.



## Guangzhou

### Haizhu Square Station Project (100% owned)

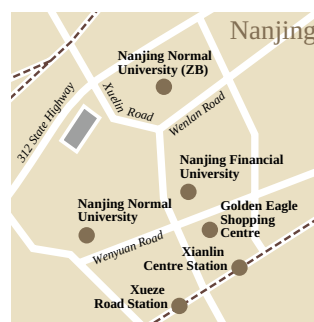


Haizhu Square Station Project, Guangzhou (artist's impression)

In the Central Business District of Yuexiu District, Haizhu Square Station Project will be the Group's another iconic integrated developments, comprising over 1,800,000 square feet of gross floor area comprising about 840,000 square feet of high-end retail space and two office towers of over 980,000 square feet. Sitting on the banks of Pearl River, this project is located atop Haizhu Square subway station, which is the interchange of metro line no. 2 and line no. 6. The concept design was completed and the project is now under development with the scheduled completion at the end of 2019.

## Nanjing

### Emerald Valley (100% owned)



Emerald Valley, Nanjing

Located in Xianlin New District, this land lot of approximately 1,600,000 square feet will be developed in three phases into a high-end residential project, complemented by a nursery, amenities and a community centre and other facilities, providing an aggregate gross floor area of about 1,100,000 square feet. With the relocation of universities and colleges into this district and the opening of Xianlin Centre subway station, this university town's community facilities and transportation network are being further enhanced. Following the completion of Phase 1 development in 2013, Phase 2 development commenced its construction in the first quarter of 2014 and was completed in the second quarter of 2016. Phase 3 development, comprising mainly the commercial and community facilities, is now under development.

## Shanghai

Henderson • CIFI Centre (50% owned)



Henderson • CIFI Centre, Shanghai

Located in the Minhang Hongqiao Central Business District, a land lot of about 910,000 square feet will be developed into approximately 1,350,000 square feet of quality office space, complemented by luxury apartments and commercial area, providing a total saleable area of over 1,730,000 square feet. It is set for full completion in mid-2017.

Xu Hui Riverside Commercial Project (100% owned)



Xu Hui Riverside Commercial Project, Shanghai (artist's impression)

The project is located at the Bund extension along the Huang Pu River and should become a bright spot together with the West Bund Media Port in the Xu Hui Riverside Development Area. With well-established local infrastructure and excellent Bund views, the project will be developed as a landmark comprising a high-rise 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. With planned completion in late 2019, construction has proceeded to the excavation and lateral support stage as the foundation work has recently been completed.

### Amber Garden (35% owned)

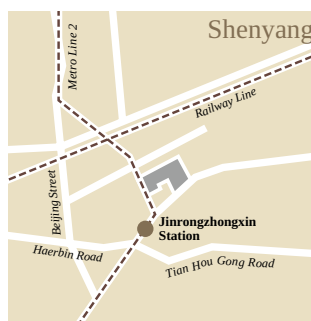


Amber Garden, Shanghai

Located in Chedong Town of Songjiang District with Songnan park and light-rail station in its proximity, a site of about 860,000 square feet is being built in two phases into a composite development. Complemented by commercial facilities, it will provide an aggregate gross floor area of over 1,040,000 square feet for 1,122 households. This project, which was sold out, is expected to be completed and ready for delivery to buyers in the second quarter of 2017.

## Shenyang

### Shenyang International Finance Centre (100% owned)



Shenyang International Finance Centre, Shenyang (artist's impression)

The Shenyang International Finance Centre project is located in the Shenyang Finance & Trade Development Zone and to its northwest is the Shenyang North Railway Station, whilst a subway station is also within walking distance, bringing added convenience. This development will have a total gross floor area of about 3,140,000 square feet.

### Golden Riverside (100% owned)

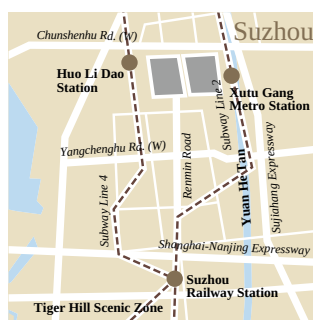


Golden Riverside, Shenyang

Located in the scenic Puhe New District Development with many natural wonders such as Yueya Lake, Pu River and parks and hills within the vicinity, this site will be developed in phases into a low-rise and low-density residential development with a total gross floor area of about 7,560,000 square feet. Its first phase of development, with a total gross floor area of about 260,000 square feet for 68 low-rise residential units, was completed in 2014. Construction of the second phase, comprising 316 low-rise residential units and a block of multi-storey apartments with a total gross floor area of around 1,150,000 square feet, was completed in the third quarter of 2016.

## Suzhou

### Riverside Park (100% owned\*)

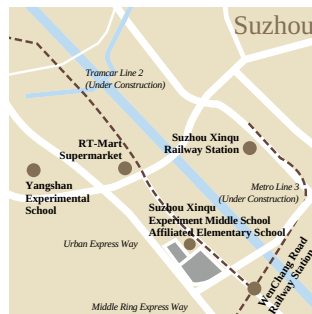


Riverside Park, Suzhou

Riverside Park, a community development project in Xiangcheng District, is supported by increasingly improved facilities. Benefitting from Suzhou's picturesque beauty and reputation as the "Venice of the East", the development nestles among scenic water themed surroundings. The entire project will have over 6,360,000 square feet of gross floor area to be completed in six phases. Phases 1 to 3, with a total gross floor area of over 2,790,000 square feet for 2,276 luxury residences, have been completed already. Phase 4, with a total gross floor area of about 910,000 square feet for 682 luxury residences, was completed in the second half of 2016. Phase 5 of 1,233 luxury residences with a gross floor area of about 1,450,000 square feet commenced construction in the fourth quarter of 2014, whilst the remaining 1,090,000 square feet for 892 luxury residences under Phase 6 is under construction. Adjacent to the residential community of Riverside Park, there is an integrated commercial project. Phase 1, which boasts a total gross floor area of about 990,000 square feet, has progressed well in the construction of its main structure and is set for completion in the second quarter of 2017.

(\*CIFI will participate in the development of Phase 5 (Block Nos. 24 and 30) and Phase 6 and share 30% of their costs and economic interests.)

### Henderson • CIFI City (50% owned)



*Henderson • CIFI City, Suzhou (artist's impression)*

Located in Xushuguan Development Zone of Gaoxin District, this community development will provide a total residential gross floor area of over 4,200,000 square feet for 3,862 households, complemented by supporting facilities, on the site area of about 1,800,000 square feet. It will be developed in three phases with the scheduled completion for the whole project in the second quarter of 2019.

## Tieling

### New Town Central District Development (100% owned)

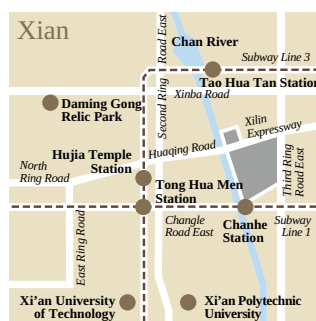


*New Town Central District Development, Tieling (artist's impression)*

Located next to the administration centre of the municipal government with the scenic Ruyi Lake in the proximity, the 2,750,000-square-foot land lot will be developed into an exhibition centre, as well as office-cum-commercial complex with a total gross floor area of approximately 4,900,000 square feet. Construction of Phase 1A, comprising about 380,000 square feet, commenced in the third quarter of 2014.

## Xian

La Botanica (50% owned)



La Botanica, Xian (artist's impression)

Jointly developed by the Group and CapitaLand Township Private Limited of Singapore, La Botanica is located within the scenic Chan Ba Ecological District with a subway line connecting it to the city centre. This community development will have a total gross floor area of about 32,400,000 square feet, providing homes for over 28,000 households upon full completion. Phases 1A, 1B (C1 and C2), 2A, 3A (C1 and C2) and 2R6, 4R1 and 2R2 (C1 and C2) with a total gross floor area of 12,590,000 square feet, were completed. Phase 2R4, which comprises about 1,850,000 square feet of residences, will be completed by the end of 2017. Phases 3R2 and 2R5 (first section), which comprise about 2,160,000 and 1,520,000 square feet of residences respectively, will be put up for successive sales launch in the first half of 2017 as they commenced their constructions in the fourth quarter of 2016 and the first quarter of 2017 respectively. In Site 4M1, an integrated shopping mall will be built, providing comprehensive commercial facilities for this project as well as its neighbourhood. Its Phase 1 development will commence in mid-2017.

Palatial Crest (100% owned)



Palatial Crest, Xian

Adjacent to the Hujia Temple subway station, Palatial Crest is conveniently located at Jinhua North Road on the main artery of Second Ring Road East. The entire project will be completed in three phases, offering a total residential gross floor area of over 3,470,000 square feet for 2,744 households. Phase 1, comprising about 490,000 square feet, was sold out and completed in 2012. Construction of deluxe high-rise residential units in Phase 2 with a gross floor area of approximately 2,200,000 square feet commenced in the first quarter of 2012, of which Phases 2A and 2B were completed and handed over to the buyers. Phase 2C was launched for pre-sale in the fourth quarter of 2014 and completed in December 2016. Phase 3, comprising approximately 780,000 square feet of deluxe high-rise residential apartments, commenced construction in the third quarter of 2014. They will be handed over to buyers in two batches in the third quarter of 2017 and the second quarter of 2019, respectively.

## Xuzhou

### Xuzhou Lakeview Development (100% owned)



*Xuzhou Lakeview Development, Xuzhou*

Catering to mid to high-end home buyers, Xuzhou Lakeview Development benefits from the beautiful natural landscape of Dalong Lake, convenient transportation and a comprehensive range of facilities. The project, which includes luxury detached houses, high rise apartments, commercial premises and other facilities, will be completed in four phases, providing a total residential area of approximately 4,500,000 square feet for 3,541 households. This project also boasts a commercial area of about 650,000 square feet.

## Yixing

### Grand Lakeview (100% owned\*)



*Grand Lakeview, Yixing*

Set amongst lush, tranquil surroundings in Dongjiu District, Grand Lakeview is just a five minute drive away from the city centre. To be completed in six phases, this lakefront development offers luxury living in a mix of semi-detached and duplex houses, multi-storey and low-rise apartments, providing an aggregate gross floor area of about 9,000,000 square feet for over 6,800 households.

At Site F, about 1,800,000 square feet of residences in Phases 1A/1B/1C, as well as about 300,000 square feet of residential-cum-commercial development in Phase 1D, were both completed. Development of Phases 1A/1B/1C at Site B1, which boasts a total residential gross floor area of about 1,400,000 square feet and commercial gross floor area of about 50,000 square feet respectively, was also completed in the fourth quarter of 2016. Phases 2 and 3 of Site F, as well as Phases 2 and 3 of Site B1, will in aggregate provide a residential/commercial area of about 5,450,000 square feet for over 4,300 households. Phase 2A at Site F commenced its construction with the planned completion in the third quarter of 2019.

*(\*CIFI will participate in its development of Phases 2A, 2B and 3 at Site F and Phases 2 and 3 at Site B1 and share 50% of their costs and economic interests.)*

## Major Completed Investment Properties

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet)			Attributable no. of carpark
				Commercial	Office	Total	
<b>Beijing</b>							
World Financial Centre	No. 1 East Third Ring Middle Road, Chaoyang District	2044	100.00	212,644	1,999,947	<b>2,212,591</b>	1,163
<b>Shanghai</b>							
Henderson Metropolitan	No. 300 Nanjing Road East, Huangpu District	2053	100.00	406,618	427,980	<b>834,598</b>	272
Henderson 688	No. 688 Nanjing Road West, Jingan District	2044	100.00	49,807	660,829	<b>710,636</b>	404
2 Grand Gateway	No. 3 Hong Qiao Road, Xuhui District	2043	100.00	–	687,981	<b>687,981</b>	–
Centro	No. 568 Heng Feng Road, Zhabei District	2042	100.00	65,467	368,658	<b>434,125</b>	186
Greentech Tower	No. 436 Heng Feng Road, Zhabei District	2042	100.00	52,922	355,882	<b>408,804</b>	163
Skycity	No. 547 Tian Mu Road West, Zhabei District	2042	100.00	293,448	142,353	<b>435,801</b>	272
<b>Guangzhou</b>							
Heng Bao Plaza	No. 133 Bao Hua Road, Liwan District	2040	100.00	653,557	–	<b>653,557</b>	347
<b>Total:</b>				<b>1,734,463</b>	<b>4,643,630</b>	<b>6,378,093</b>	<b>2,807</b>



# Business Model and Strategic Direction

## Business Model

Henderson Land has established a diversified business model which comprises “three pillars” namely, property investment, strategic investments and property development in both Hong Kong and mainland China. The property investment business and strategic investments provide a reliable and growing income source to the Group, while the property development business is a dynamic profit driver.

The Group’s property development business in Hong Kong is vertically integrated, enabling the design, development, construction, sales and management of development projects to be executed in an efficient manner. The Group applies a cost effective approach of land banking by acquiring old buildings for redevelopment in the urban areas and converting the land-use of New Territories land in order to obtain development land sites at a reasonable cost. For mainland China projects, the Group focuses on large-scale residential developments in the second and third-tier cities, which are characterised by a preponderance of middle class residents, whilst also owning a premier portfolio of commercial investment properties in the first-tier cities.

In Hong Kong, the Group’s substantial and diverse property investment portfolio mainly comprises offices and shopping arcades in core areas, as well as a number of large-scale shopping malls located in strategic locations above or adjacent to MTR stations. In mainland China, the Group owns exceptionally well designed and quality large-scale commercial complexes situated in prime locations for rental purposes.

As regards strategic investments, the Group is the largest shareholder of three listed companies, namely, The Hong Kong and China Gas Company Limited (“HKCG”), Miramar Hotel and Investment Company, Limited (“Miramar”) and Hong Kong Ferry (Holdings) Company Limited (“HKF”). HKCG is engaged in the production and distribution of gas in Hong Kong and mainland China. Miramar is engaged in property investment, hotel operation and food and beverage operations. HKF is engaged in property development and investment. HKCG, being a public utility company, provides a very substantial income to the Group.

## Strategic Direction

The Group is dedicated to maximising value for shareholders over the long term by executing the following strategies:

### Building for a sustainable future with low land costs

The Group replenishes its land bank by acquiring old tenement buildings for redevelopment and applying for land-use conversion for its portfolio of New Territories land. Such dual approach to land banking has proven to be a reliable source of land supply with a reasonable acquisition cost, which is beneficial to the Group’s development returns in the long term.

As a sustainable property developer, the Group is highly proactive in its commitment to environmental stewardship during the process of its development activities, and carefully anticipates the needs and concerns of society.

### Locating prime sites for property investment with a stable income stream

The Group’s property investment portfolio is well diversified with commercial properties situated in prime locations, generating a recurring and steady income stream. Furthermore, the department store business operated by the Group’s listed subsidiary – Henderson Investment Limited, mainly at the Group’s properties, serve to maximise the value and occupancy rate of the Group’s investment properties.

### Expanding the mainland China market

Property development and property investment in mainland China provide the Group with potential for territorial expansion. The Group will actively seek to expand its land bank in mainland China, targeting projects for first time home buyers and upgraders. Apart from developing properties on its own, the Group will continue looking for new joint-venture projects with local property developers.

## Business Model and Strategic Direction

### Holding of strategic investment for constant return

The investments in the three listed associates, HKCG, Miramar and HKE, provide stable and constant returns for the Group. The distinctive business nature of HKCG, in particular, is a supplement to the Group's core businesses of property development and property investment and allows Henderson Land to smooth out the cyclicity of the Group's property development business.

### Conservative financial strategy

The Group employs a conservative funding and treasury strategy. It consistently keeps a low to moderate financial gearing ratio with abundant unutilised committed banking facilities in place that are of medium term in tenor. The Group maintains an excellent ongoing relationship with the major commercial banks while endeavouring to diversify its funding sources through debt issuance in different financial markets.

# Financial Review

## Management discussion and analysis

### 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/ (Decrease) %	Year ended 31 December		Increase/ (Decrease) %
	2016 HK\$ million	2015 HK\$ million		2016 HK\$ million	2015 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 HK\$ million	2015 HK\$ million	Increase %
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.

## Financial Review

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 HK\$ million	2015 HK\$ million	Increase/(Decrease) 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	
<b>Adjusted Underlying Profit</b>	<b>13,743</b>	<b>10,569</b>	<b>3,174</b>	<b>+30%</b>

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 HK\$ million	2015 HK\$ million	Increase/(Decrease) HK\$ million	%
<i>By geographical contribution :</i>				
Hong Kong	9,951	12,091	(2,140)	-18%
Mainland China	7,728	3,599	4,129	+115%
	<b>17,679</b>	<b>15,690</b>	<b>1,989</b>	<b>+13%</b>

## Financial Review

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			
	2016 HK\$ million	2015 HK\$ million	Increase/(Decrease) HK\$ million	%
<i>By geographical contribution :</i>				
Hong Kong	2,542	3,349	(807)	-24%
Mainland China	1,445	631	814	+129%
	<b>3,987</b>	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.

## Financial Review

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

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 HK\$ million	2015 HK\$ million	Increase/(Decrease) HK\$ million	%
<i>By geographical contribution :</i>				
Hong Kong	3,871	3,852	19	+1%
Mainland China	1,688	1,737	(49)	-3%
	<b>5,559</b>	<b>5,589</b>	<b>(30)</b>	<b>-1%</b>

**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		Increase/(Decrease)	
	2016 HK\$ million	2015 HK\$ million	HK\$ million	%
<i>By geographical contribution :</i>				
Hong Kong	5,132	4,950	182	+4%
Mainland China	1,349	1,353	(4)	-0.3%
	<b>6,481</b>	6,303	178	+3%
<i>By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :</i>				
Subsidiaries	4,227	4,114	113	+3%
Associates	761	731	30	+4%
Joint ventures	1,493	1,458	35	+2%
	<b>6,481</b>	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, Kwun Tong, 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 year, 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
<b>Total debt</b>	<b>56,400</b>	<b>52,096</b>
Less: Cash and bank balances	<b>(22,966)</b>	<b>(11,779)</b>
<b>Net debt</b>	<b>33,434</b>	<b>40,317</b>
Shareholders' funds	263,534	251,247
<b>Gearing ratio (%)</b>	<b>12.7%</b>	<b>16.0%</b>

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.

## Financial Review

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).

## Five Year Financial Summary

	Note	Year ended 31 December				
		2012 (restated) HK\$ million	2013 (restated) HK\$ million	2014 (restated) HK\$ million	2015 HK\$ million	2016 HK\$ million
Profit for the year	1&3	20,201 <sup>^</sup>	15,948	16,752	21,326	<b>21,916</b>
Underlying Profit for the year	1,2&3	8,116 <sup>^</sup>	9,232 <sup>^</sup>	9,818 <sup>^</sup>	11,009	<b>14,169</b>
		HK\$	HK\$	HK\$	HK\$	HK\$
Earnings per share	1,3&5	5.78 <sup>^</sup>	4.48	4.64	5.87	<b>6.03</b>
Underlying earnings per share	1,2,3&5	2.32 <sup>^</sup>	2.60 <sup>^</sup>	2.72 <sup>^</sup>	3.03	<b>3.90</b>
Dividends per share	1	1.06	1.06	1.10	1.45	<b>1.55</b>

	Note	At 31 December				
		2012 (restated) HK\$ million	2013 HK\$ million	2014 HK\$ million	2015 HK\$ million	2016 HK\$ million
Investment properties		98,509	106,931	117,836	128,597	<b>131,850</b>
Other property, plant and equipment		2,563	1,941	1,869	1,692	<b>1,419</b>
Interest in associates	3	42,403 <sup>^</sup>	48,108	50,146	51,953	<b>53,936</b>
Interest in jointly controlled entities/joint ventures		29,588	31,046	32,365	35,619	<b>38,728</b>
Inventories		76,403	80,233	80,101	81,556	<b>75,242</b>
Net debt	4	35,205	38,344	37,420	40,317	<b>33,434</b>
Net asset value	1&3	205,163 <sup>^</sup>	223,402	238,150	251,247	<b>263,534</b>
Net debt to net asset value		17.2%	17.2%	15.7%	16.0%	<b>12.7%</b>
		HK\$	HK\$	HK\$	HK\$	HK\$
Net asset value per share	1,3&5	58.00 <sup>^</sup>	62.18	65.61	69.08	<b>72.46</b>

<sup>^</sup> Restated as a result of changes in the presentation basis of Underlying Profit and Underlying earnings per share and in the Group's accounting policy as referred to in notes 2 and 3 below respectively.

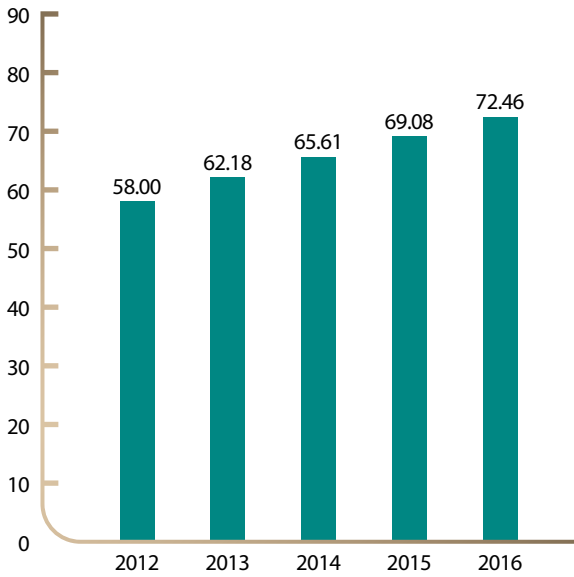
### Notes:

- The profits, earnings, dividends and net asset values shown or referred to above were all attributable to equity shareholders of the Company.
- Definitions of "Underlying Profit" and "Underlying earnings per share" are referred to in note 14(b) to the Company's audited consolidated financial statements for the year ended 31 December 2016 as contained in the Company's annual report for the year ended 31 December 2016.
- For the year ended 31 December 2013, as a result of the adoption of revised Hong Kong Accounting Standard ("HKAS") 19, "Employee benefits", the Group's certain associates have changed their accounting policy with respect to defined benefit plans. This change in accounting policy has been applied retrospectively by restating the balances at 1 January 2012 and 31 December 2012, with consequential adjustments to the comparative figures for the year ended 31 December 2012.
- Net debt represents the total of bank loans and overdrafts, guaranteed notes and the amount due to a fellow subsidiary minus cash and bank balances.
- The earnings per share and underlying earnings per share were calculated based on the weighted average number of shares as adjusted for the effect of the bonus issues under HKAS 33, "Earnings per share".

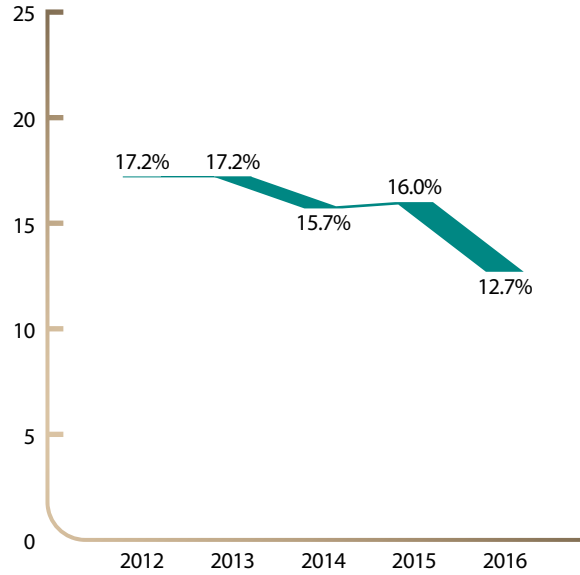
The net asset values per share were calculated based on the number of issued shares outstanding at the end of the respective reporting periods and adjusted for the effect of the bonus issues.

## Five Year Financial Summary

### Net asset value per share (HK\$)

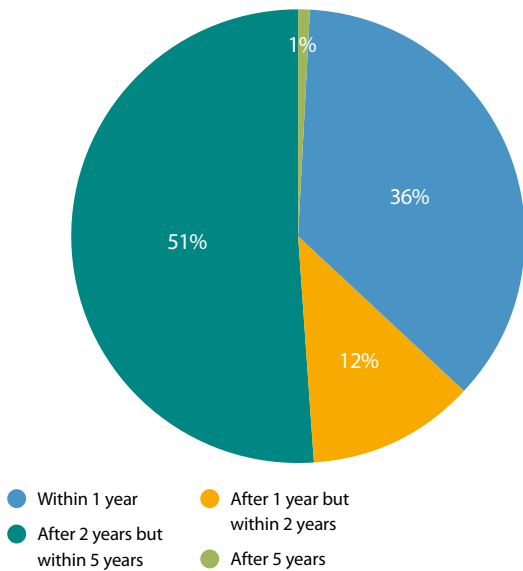


### Net debt to net asset value (%)



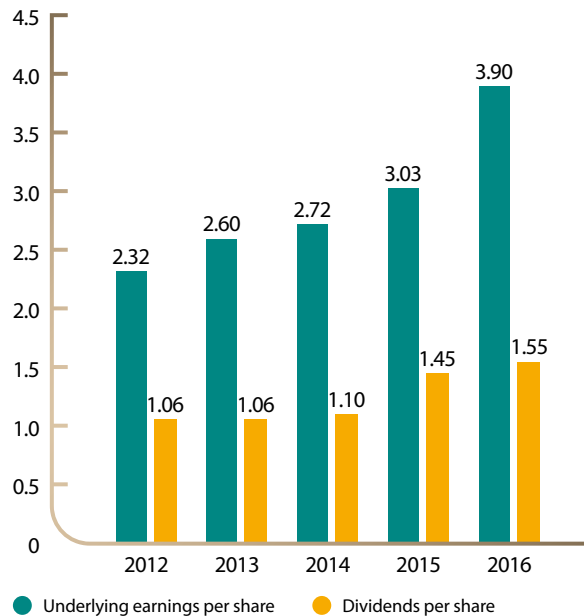
### Maturity profile of the Group's bank and other borrowings repayable<sup>note 1</sup>

at 31 December 2016



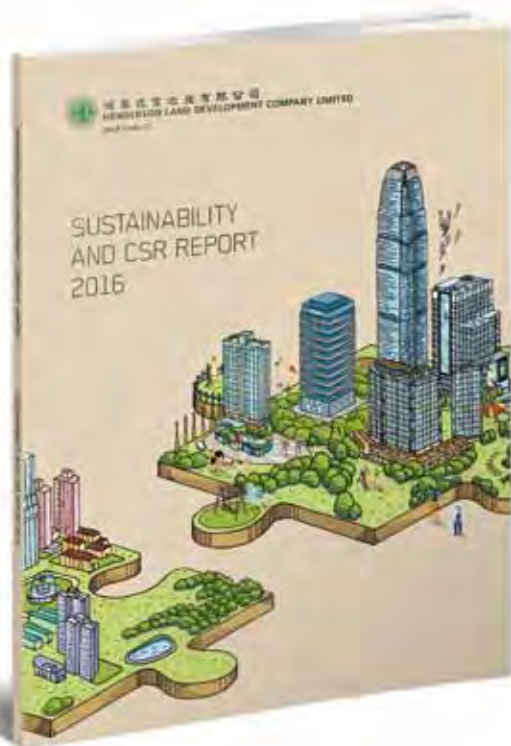
Note 1: Excluding the amount due to a fellow subsidiary.

### Underlying earnings / dividends per share (HK\$)





# Sustainability and CSR



This section provides a summary of Henderson Land's strategy and achievements in respect of sustainability. 2016 marked further progress in the Group's Sustainability Reporting initiatives, with the production of a standalone report that adheres to the Global Reporting Initiative ("GRI") G4 Sustainability Reporting Guidelines and the Construction and Real Estate Sector Supplement. This report is supplemented by further information, highlighting relevant case studies and initiatives. For further details, please refer to the 2016 Sustainability and CSR Report on the Company's website [www.hld.com](http://www.hld.com).

Henderson Land places considerable importance on its environmental, social and governance performance. The Group's comprehensive environmental and CSR policies guide its management strategy and organisational culture, while reducing its environmental impact for the benefit of the community. Henderson Land strives to exceed basic compliance with environmental laws and standards, further improving its performance by conserving energy through the use of efficient technology, procuring from recyclable and renewable resources, and reducing the use of materials. The Group also continues to manage the waste it produces in an environmentally responsible manner, and reduces the use of paper throughout its operations.

In 2016, the Group's greenhouse gas and energy intensity<sup>1</sup> decreased by about 9%, compared to the previous year. Henderson Land continues to deliver sustainable products and services through innovative designs which are recognised by various leading environmental accreditations, including LEED Platinum, BEAM Plus Platinum, Hong Kong Green Building Council Green Building Award and WELL Gold Level Pre-certification. The Group's 18 King Wah Road project became one of the first few Hong Kong developments being pre-certified as a WELL accredited building, a newly established holistic health performance accreditation standard for buildings. The Group also sets a proud precedent with the remarkable 15 Middle Road project, which has fully integrated the Group's SEED ethos, creating a property that addresses well-being, energy efficient systems, intelligent design, and depuration systems that benefit the environment and surrounding area. To date, the Group has achieved 10 LEED, 18 BEAM, 23 BEAM Plus, four China Green Building Design Label and one WELL project accreditations for its projects, comprising 16 office and commercial developments, 23 residential developments and one hotel property.

<sup>1</sup> The scope of greenhouse gas and energy intensity include our headquarters at Two ifc, AIA Tower and 33 properties managed by Goodwill in 2016

## Sustainability and CSR

The Group carefully monitors and complies with all applicable regulations regarding marketing and promotion. Henderson Land is also committed to securing customer privacy and addressing any risks related to the handling of data and information. To ensure robust data handling practices, staff are kept apprised of relevant regulations through training seminars and programmes. The Group also ensures the resilience of its IT systems, with all staff undergoing mandatory IT security tests to address any weaknesses or vulnerabilities within the Group's departments.

Henderson Land delivers superior customer service in both the sales and management of its properties, with a Customer Services Code of Conduct ensuring that certain quality standards are met in all customer interactions. As evidence to its effectiveness, surveys consistently report customer satisfaction rates above 97% at our managed properties.

Employees are Henderson Land's most important asset and the Group ensures their continued professional growth and wellbeing through competitive welfare packages and training and development opportunities. During 2016, the Group's employees undertook approximately 155,000 hours of training, and have continued to benefit from structured programmes that aid their language, negotiation and computer skills and general business acumen. The Group does not tolerate any form of workplace discrimination and has established diverse communication channels to solicit staff feedback and incorporate it into business planning.

Health and safety is a priority and the Group remains committed to providing a safe and secure workplace across all of its operations. An Occupational Health and Safety Committee, inclusive of Site Safety Subgroups, manages occupational health and safety risks on-site. Through its committed efforts, the Group once again reported a low accident rate of 6.1 per 1,000 workers in 2016, compared to the industry accident rate of 39.1 per 1,000 workers in 2015.

The Group believes its prospects as a successful business are closely linked to the economic, social and environmental benefits that it delivers to the community. Henderson Land strives to create a positive impact on society both through its operations and through community initiatives, including poverty alleviation, environmental education, arts and culture, youth development, and social entrepreneurship. In 2016, more than 90 community programmes and 19 volunteer activities received the Group's support and participation. Furthermore, the Group and its listed associates contributed over 85,000 volunteer hours during 2016.

A detailed discussion of the Henderson Land's environmental and CSR policies and its relationship with customers, suppliers, employees, and other key stakeholders is contained in the Group's standalone 2016 Sustainability and CSR Report.

# Corporate Governance Report

The Board of Directors of the Company (the “Board”) is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2016.

## 1) Commitment to Corporate Governance

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards.

## 2) Corporate Governance Code

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 Company 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.

## 3) Board of Directors

### a) Responsibilities of and Support for Directors

The Board has the responsibility for management of the Company, which includes formulating business strategies, and directing and supervising the Company’s affairs, approving interim reports and annual reports, announcements and press releases of interim and final results, considering dividend policy, approving the issue, allotment or disposal, or grant of options, in respect of securities or debentures of the Company and reviewing the effectiveness of the risk management and internal control systems which include reviewing the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function. The Board makes broad policy decisions and has delegated the responsibility for detailed considerations to the standing committee of the Board (the “Standing Committee”).

The day-to-day management, administration and operation of the Company are delegated to the management team. The Board gives clear directions to the management as to their powers of management, and circumstances in which the management should report back.

Every Director ensures that he/she gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his/her appointment the directorships held in listed companies or nature of offices held in public organisations and other significant commitment, with the identity of such listed companies or public organisations. The Company has also requested Directors to provide in timely manner any change on such information. Each Director is also required to disclose to the Company his/her time commitment. The details of the Directors’ time commitment are disclosed under the sub-paragraph “Directors’ Time Commitments and Trainings” below.

## Corporate Governance Report

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors will be notified of code provision amendment updates in respect of the CG Code so as to be kept abreast of latest code provision requirements and be assisted in fulfilling their responsibilities. The Directors are also provided with monthly updates which contain periodic financials with summaries of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

### b) Corporate Governance Function

The Corporate Governance Committee as set up in 2012 has undertaken the corporate governance function as required under the CG Code. Details of the Corporate Governance Committee are shown in paragraph 4 "Board Committees" below.

### c) Board Composition

The Board currently comprises eighteen members, as detailed below:

<b>Executive Directors</b>	<b>Non-executive Directors</b>	<b>Independent Non-executive Directors</b>
Dr Lee Shau Kee <i>(Chairman and Managing Director)</i>	Lee Pui Ling, Angelina Lee Tat Man	Kwong Che Keung, Gordon Professor Ko Ping Keung
Dr Lee Ka Kit <i>(Vice Chairman)</i>		Wu King Cheong Woo Ka Biu, Jackson
Dr Lam Ko Yin, Colin <i>(Vice Chairman)</i>		Leung Hay Man Professor Poon Chung Kwong
Lee Ka Shing <i>(Vice Chairman)</i>		
Yip Ying Chee, John		
Suen Kwok Lam		
Fung Lee Woon King		
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

The biographical details of the Directors are set out on pages 121 to 125 of this Annual Report. Dr Lee Shau Kee is the father of Dr Lee Ka Kit and Mr Lee Ka Shing, the brother of Mr Lee Tat Man and Madam Fung Lee Woon King. Save as aforesaid, none of the members of the Board is related to one another. A List of Directors and their Role and Function is available on the Company's website.

The Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Group's businesses. The Board also has a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the board, which can effectively exercise independent judgement.

The term of office of all Non-executive Directors (including Independent Non-executive Directors) has been fixed for a specific term of not more than three years. They are subject to retirement by rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the Articles of Association of the Company ("Articles").

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has also met the requirement of at least one-third of members of the Board being independent non-executive directors.

The Company has received confirmation in writing of independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Board considers that each of the Non-executive Directors and Independent Non-executive Directors brings his/her own relevant expertise to the Board.

### d) Appointment and Re-election of Directors

The Board is empowered under the Articles to appoint any person, as a Director, either to fill a casual vacancy on or to be an additional member of the Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and exercise reasonable care, skill and diligence would be recommended to the Board for selection. Appointments are first considered by the Nomination Committee in accordance with its terms of reference and the Company's board diversity policy, and recommendation of the Nomination Committee are then put to the Board for decision.

In accordance with the Articles, new appointments to the Board are subject to re-election at the next following AGM. Furthermore, nearest one-third of the Directors, including those appointed for a specific term, will retire from office by rotation but are eligible for re-election at the AGM and the Board will ensure that every Director is subject to retirement by rotation at least once every three years. Each Director was appointed by a letter of appointment setting out the key terms and conditions of his/her appointment.

The appointment of Independent Non-executive Directors adheres to the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules.

## Corporate Governance Report

### e) Board Meetings

#### i) *Number of Meetings and Directors' Attendance*

The Board meets from time to time and at least four times a year to discuss and exchange ideas on the affairs of the Company. During the year ended 31 December 2016, the Board held four meetings to approve interim/final results announcements and interim/annual reports, to determine the level of dividends, to discuss significant issues and the general operation of the Company and to approve matters and transactions specifically reserved to the Board for its decision. The attendance of the Directors is set out in the table on page 97.

During the year, the Non-executive Directors (including Independent Non-executive Directors) held a meeting themselves. In addition, the Chairman held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors being present in accordance with the CG Code.

#### ii) *Practices and Conduct of Meetings*

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Meeting agenda and accompanying Board papers are sent to all Directors in a timely manner and at least 3 days before the Board/committee meetings.

The Company Secretary of the Company is responsible to take and keep minutes of all Board and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final signed version is open for Directors' inspection with copies sent to all Directors for their records.

### f) Conflict of Interest

If a Director has a material interest in a matter to be considered by the Board, a physical meeting will be held to discuss the matter instead of seeking Directors' written consent by way of circulation of written resolution. In accordance with the Articles, such Director who is considered to be materially interested in the matter shall abstain from voting and not be counted in the quorum.

### g) Director's and Officer's Liability Insurance

The Company has arranged director's and officer's liability insurance to indemnify the Directors and senior management against any potential liability arising from the Company's business activities which such Directors and senior management may be held liable.

The Company also keeps Directors indemnified against any claims to the fullest extent permitted by the applicable laws and regulations arising out of Directors' proper discharge of duties except for those attributable to any gross negligence or wilful misconduct.

### h) Directors' Time Commitments and Trainings

The Company has received confirmation from each Director that he/she had sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies and organisations and an indication of the time involved. Directors are encouraged to participate in professional, public and community organisations. They are also reminded to notify in a timely manner the Company of any change of such information. In respect of those Directors who stand for re-election at the 2017 AGM, all their directorships held in listed public companies in the past three years are set out in the Circular of general mandates. Other details of Directors are set out in the biographical details of Directors on pages 121 to 125 of this Annual Report.

During the year, arrangements were made for speakers delivering talks and presentations to Directors of the Company on relevant topics with emphasis on the roles, functions and duties of directors, as well as corporate governance. Legal and regulatory updates are provided from time to time to the Directors for their reading. Directors are also encouraged to attend outside talks and seminars to enrich their knowledge in discharging their duties as a director. On a regular basis, information of seminars organised by professional bodies are provided to the Directors, and the seminar enrolments are handled by the company secretarial department.

According to the training records provided by the Directors to the Company, all Directors participated in continuous professional development in 2016 which comprised attending seminars and talks, and reading legal and regulatory updates and other reference materials.

## 4) Board Committees

The Board has five Board Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Corporate Governance Committee for overseeing particular aspects of the Company's affairs. The Standing Committee of the Board operates as a general management committee with delegated authority from the Board.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### a) Audit Committee

The Audit Committee was established in December 1998 and reports to the Board. The members of the Audit Committee are:

#### **Independent Non-executive Directors**

Kwong Che Keung, Gordon (*Chairman*)

Professor Ko Ping Keung

Wu King Cheong

Leung Hay Man

The Chairman has the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee was a former partner of the Company's existing external auditor within one year immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgement in conducting the business of the Committee.

The written terms of reference also include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and risk management and internal control systems. The terms of reference of the Audit Committee are available on the Company's website.

The Audit Committee held three meetings during the year ended 31 December 2016. The major work performed by the Audit Committee in respect of the year ended 31 December 2016 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2016, reviewing the audited financial statements and final results announcement for the year ended 31 December 2015, reviewing the work of the Group's audit department and assessing the effectiveness of the Group's systems of risk management and internal control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, training programmes and budget.



### b) Remuneration Committee

The Remuneration Committee which was established in January 2005 comprises:

#### **Executive Directors**

Dr Lee Shau Kee

Dr Lam Ko Yin, Colin

#### **Independent Non-executive Directors**

Wu King Cheong (*Chairman*)

Kwong Che Keung, Gordon

Professor Ko Ping Keung

Each member is sufficiently experienced and is appropriately skilled in the issue of determining executive compensations in public companies. The Board expects the committee members to exercise independent judgement in conducting the business of the committee.

The written terms of reference include the specific duties of determining, with delegated responsibility, the remuneration package of the individual Executive Director and senior management and making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The terms of reference of the Remuneration Committee are available on the Company's website.

During the year ended 31 December 2016, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company and the level of salary increments for 2017 as well as the remuneration of senior management staff and the Directors with reference to the remuneration level of directors of comparable listed companies.

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 9 to the financial statements on pages 178 to 180 while the analysis of the senior management's emoluments by band is set out in note 10 to the financial statements on page 181. The Director's fees are fixed at the rate of HK\$100,000 per annum for each Executive Director/Non-executive Director, HK\$200,000 per annum for each Independent Non-executive Director and in case of each Independent Non-executive Director acting as member of (i) the Audit Committee an additional remuneration at the rate of HK\$250,000 per annum, (ii) the Nomination Committee an additional remuneration at the rate of HK\$50,000 per annum, (iii) the Remuneration Committee an additional remuneration at the rate of HK\$50,000 per annum and (iv) the Corporate Governance Committee an additional remuneration at the rate of HK\$100,000 per annum until the Company in general meetings otherwise determines. Other emoluments shall from time to time be determined by the Board with reference to the Directors' duties and responsibilities and subject to a review by the Remuneration Committee.

The Remuneration Committee has recommended the proposed increases in the Directors' fees with effect from 1 July 2017, the details of which are set out in item no. 3 of the Notice of Annual General Meeting on page 241.

### c) Nomination Committee

The Nomination Committee which was established in December 2011 comprises:

#### **Executive Directors**

Dr Lee Shau Kee (*Chairman, in his absence,*  
*Professor Ko Ping Keung, acting as Chairman*)  
Dr Lam Ko Yin, Colin

#### **Independent Non-executive Directors**

Kwong Che Keung, Gordon  
Professor Ko Ping Keung  
Wu King Cheong

Each member is sufficiently experienced and is appropriately skilled in the issues of the nomination of directors to the Board. The Company has provided the Nomination Committee with sufficient resources to perform its duties. Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities.

The written terms of reference include the specific duties of reviewing of the structure, size and composition of the Board with due regards to the board diversity policy and to make recommendation on any proposed changes to the Board to complement the Company's corporate policy. The board diversity policy provides that selection of candidates will be based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The terms of reference of the Nomination Committee are available on the Company's website.

During the year ended 31 December 2016, the Nomination Committee held three meetings to assess the independence of Independent Non-executive Directors of the Company, recommend the extension of the terms of office of Non-executive/Independent Non-executive Directors and review the size and composition of the Board and the board diversity policy. After the above review, the Nomination Committee considered that the board diversity policy was appropriate and effective. The Nomination Committee recommended to the Board to appoint Mr Kwong Che Keung, Gordon as a member of the Corporate Governance Committee to fill the vacancy arising from the retirement of Independent Non-executive Director, Dr Chung Shui Ming, Timpson, in June 2016.

The Nomination Committee noted that the proposed re-election of Mr Wu King Cheong ("Mr Wu") who had been serving as Independent Non-executive Director of the Company for more than nine years since 2005, should be subject to a separate resolution to be approved by the shareholders at the forthcoming AGM in accordance with the CG Code.

Mr Wu is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. During his tenure of office, Mr Wu had been able to fulfill all the requirements regarding his independence as independent non-executive director. Besides, he has been providing objective and independent views to the Company over the years, and he remains committed to his independent role. The members of the Nomination Committee were of the view that the long service of Mr Wu would not affect his exercise of independent judgement and were satisfied that Mr Wu has the required character, integrity and experience to continue fulfilling the role of independent non-executive director. Mr Wu is also independent non-executive director of Henderson Investment Limited (“HIL”). He had not engaged in any executive management role in the Group. Taking into the consideration of his independent scope of works in the past years, and that his annual confirmation of independence was in full compliance with Rule 3.13 of the Listing Rules, the members of the Nomination Committee were satisfied with the independence of Mr Wu despite his over nine years’ service and his common directorship in HIL, which had no bearing on his independence.

### d) Corporate Governance Committee

The Corporate Governance Committee which was established in October 2012 comprises:

#### **Independent Non-executive Directors**

Kwong Che Keung, Gordon (*Chairman*) (*appointed on 2 June 2016*)

Leung Hay Man

Professor Poon Chung Kwong

Each member is sufficiently experienced and is appropriately skilled in the issues of corporate governance. The Company has provided the Corporate Governance Committee with sufficient resources to perform its duties.

The written terms of reference include the duties of developing and reviewing the Company’s policies and practices on corporate governance and monitor such policies and practices on compliance with legal and regulatory requirements. The terms of reference of the Corporate Governance Committee are available on the Company’s website.

During the year, the Corporate Governance Committee held a meeting to review the Company’s policies and practices on corporate governance and formulated the work plan for the 2016 Corporate Governance Report.

## Corporate Governance Report

### e) Attendance Record at Board Meeting, Committees' Meeting and Annual General Meeting

The attendance of the individual Director at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and Annual General Meeting during the year ended 31 December 2016 is set out in the following table:

	No. of meetings attended/No. of meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	Annual General Meeting
<b>Executive Directors:</b>						
Lee Shau Kee ( <i>Chairman and Managing Director</i> )	4/4	N/A	1/1	3/3	N/A	1/1
Lee Ka Kit	3/4	N/A	N/A	N/A	N/A	1/1
Lam Ko Yin, Colin	4/4	N/A	1/1	3/3	N/A	1/1
Lee Ka Shing	4/4	N/A	N/A	N/A	N/A	1/1
Yip Ying Chee, John	3/4	N/A	N/A	N/A	N/A	1/1
Suen Kwok Lam	4/4	N/A	N/A	N/A	N/A	1/1
Lee King Yue	1/1 <sup>1</sup>	N/A	N/A	N/A	N/A	1/1
Fung Lee Woon King	4/4	N/A	N/A	N/A	N/A	1/1
Lau Yum Chuen, Eddie	4/4	N/A	N/A	N/A	N/A	1/1
Kwok Ping Ho	4/4	N/A	N/A	N/A	N/A	1/1
Wong Ho Ming, Augustine	3/4	N/A	N/A	N/A	N/A	1/1
<b>Non-executive Directors:</b>						
Lee Pui Ling, Angelina	4/4	N/A	N/A	N/A	N/A	1/1
Lee Tat Man	2/4	N/A	N/A	N/A	N/A	0/1
<b>Independent Non-executive Directors:</b>						
Kwong Che Keung, Gordon	4/4	3/3	1/1	3/3	1/1	1/1
Ko Ping Keung	4/4	3/3	1/1	3/3	N/A	1/1
Wu King Cheong	4/4	3/3	1/1	3/3	N/A	1/1
Woo Ka Biu, Jackson	4/4	N/A	N/A	N/A	N/A	1/1
Leung Hay Man	4/4	3/3	N/A	N/A	1/1	1/1
Poon Chung Kwong	4/4	N/A	N/A	N/A	1/1	1/1
Chung Shui Ming, Timpson	1/1 <sup>1</sup>	N/A	N/A	N/A	N/A	0/1

Remark: 1. Antecedent to the retirement of Mr Lee King Yue and Dr Chung Shui Ming, Timpson on 2 June 2016, there was only one Board meeting held.

## 5) Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2016, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Auditor's Report on pages 130 to 135.

## 6) Auditor's Remuneration

For the year ended 31 December 2016, the Auditor(s) of the Company and its subsidiaries agreed to receive approximately HK\$18.3 million for audit and audit related services (2015: HK\$20.0 million) as well as HK\$10.2 million for non-audit services (2015: HK\$8.3 million). The non-audit services rendered were tax services, corporate and advisory services.

## 7) Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiries, the Company confirms that all Directors have complied with the required standards as set out in the Model Code.

## 8) Continuing Connected Transactions

The Independent Non-executive Directors and the Auditor of the Company conducted reviews on the continuing connected transactions as disclosed in the Report of the Directors of this Annual Report (the "Continuing Connected Transactions"). The Audit Department of the Company has reviewed the Continuing Connected Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Continuing Connected Transactions were conducted in accordance with the pricing mechanism under the relevant agreements.

## 9) Inside Information Policy

The Board approved and adopted the Inside Information Policy in December 2012 which contains the guidelines to the directors, officers and all relevant employees (likely possessing the unpublished inside information) of the Group to ensure that the Inside Information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations. The Inside Information Policy is available on the Company's website.

## 10) Corporate Social Responsibility

The Company is a founding constituent member of the Hang Seng Corporate Sustainability Index Series launched in July 2010.

A Corporate Social Responsibility Committee, chaired by a Vice-chairman with certain Directors and department heads as members, was formed in 2012 to assist the Board in reviewing corporate social responsibility policy and overseeing relevant issues including workplace quality, environmental protection, operating practices and community involvement. The Corporate Social Responsibility Policy and the terms of reference of the Corporate Social Responsibility Committee have been adopted and posted on the Company's website.

During the year, the Corporate Social Responsibility Committee held a meeting to review the corporate social responsibility policy and performance as well as formulate the strategies for the coming year. A standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

## 11) Internal Audit, Risk Management and Internal Controls

### Internal Audit

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets.

The Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audits on the major activities of the Company. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. It is also considered that the resources, staff qualifications and experience and training programmes are adequate.

An email link has been set up in the webpage of the intranet of the Company for employees to express their opinions or concerns about the Group's operations directly to the Vice Chairman. In addition, the Company has provided a separate email link on its website, by which stakeholders can freely provide comments and suggestions on the operations of the Company so that proper actions can be taken to address issues being raised.

### Risk Management and Internal Controls

The successful management of risks is essential for the long-term growth and sustainability of the Group's business. The Board is responsible for setting strategies, business objectives and risk appetite as well as ensuring a review of effectiveness of the risk management and internal control systems, and oversees management in the design, implementation and monitoring of the risk management and internal control systems. Management staff of various departments of the Group have provided confirmations to the Board on the effectiveness of such systems.

Risk management is proactive to ensure that significant risks are:

- identified;
- assessed by considering the impacts and likelihoods of their occurrence; and
- effectively managed by identifying suitable controls and countermeasures, and assessing the cost effectiveness of the mitigating actions proposed.

#### i) *Approach to Risk Management*

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

The Board, by the top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group.

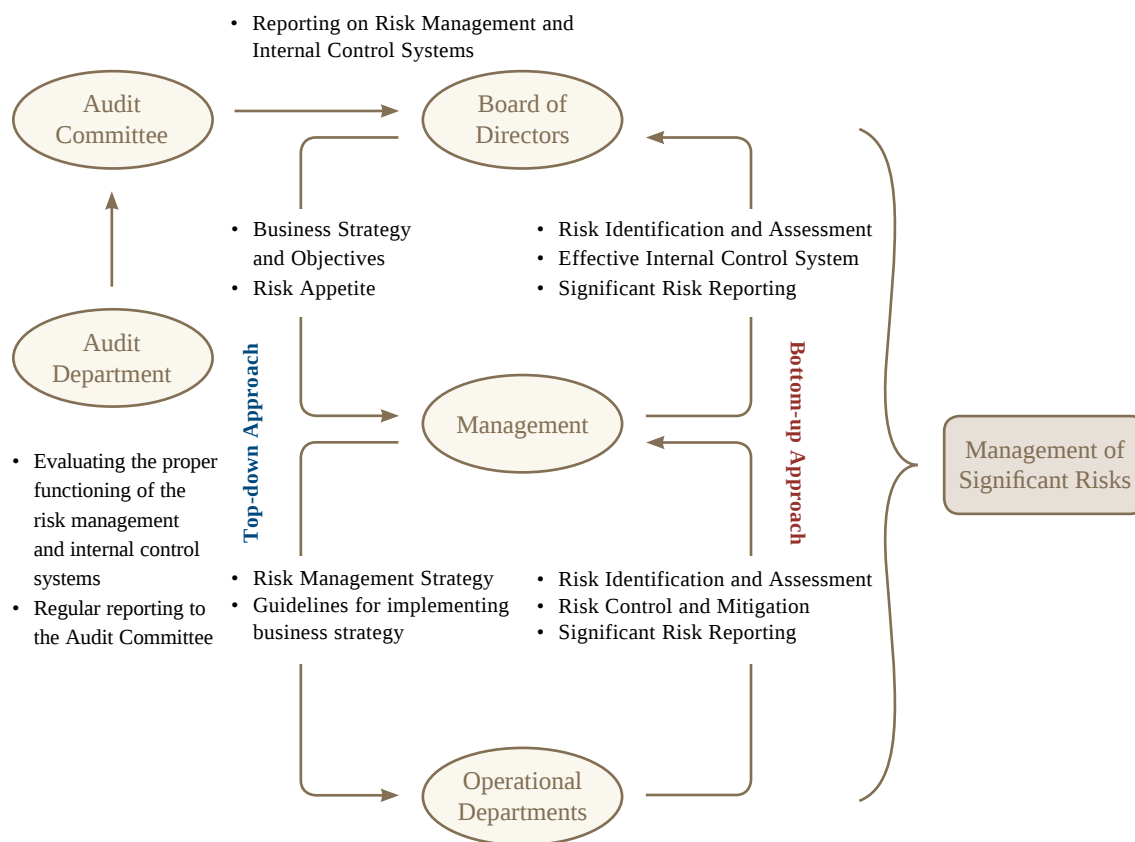
Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The process involves the maintenance of risk register setting out the particulars of material risks together with the control measures as reported by significant departments of the Group. This bottom-up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring the significant risks to be considered by the Board in determining the risk appetite.

The revised terms of reference of the Audit Committee include, among other things, the responsibility of reviewing the risk management and control systems. In addition, a risk management policy has been adopted to serve as a guideline for risk management and internal control systems and such policy is available on the Company’s website.

ii) *Risk Management Reporting and Framework*

The Audit Department performed audits to evaluate the proper functioning of the risk management and internal control systems for the financial year ended 31 December 2016. It is intended to carry out this evaluation process on an ongoing basis. The Audit Committee, after reviewing and considering the risk management findings submitted by the Audit Department, then reported to the Board of the Company and confirmed to the Board that the risk management and internal control systems are effective and adequate.

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



### iii) *Significant Risks and Control/Mitigation*

Certain significant risks have been identified through the process of risk identification and assessment. A summary on such significant risks of the Group together with the relevant internal control measures or mitigation in place is listed below:

#### a) *Regulatory and Compliance Risk*

As a listed and a diversified property development and investment, construction and real estate developer company, the Group is exposed to and subject to extensive government policies and regulations of mainland China and Hong Kong. These include the Companies Ordinance, financial and tax legislations, Residential Properties (First-hand Sales) Ordinance and construction legislations and regulations, as well as the Listing Rules in Hong Kong.

Any non-compliance with these policies and regulations may cause damage to the Group, delay its project development and affect its ability to deliver its primary objectives.

The Group is committed to complying with the relevant policies, regulations and guidelines applicable to its operations through developing internal guidelines, frequent staff trainings, sufficient time for review process, compliance handling by experienced and professional staff as well as by consultancy with external experts.

#### b) *Economic Risk*

The Group is dependent on the regional economic conditions in which the Group is active. Global economic uncertainty, prospect of interest rates hike, slowdown of mainland China's economic growth and possible sluggish economy of Hong Kong would adversely affect the Group's profitability.

The Group reviews and optimises its asset portfolio to ensure that it is sufficiently cost effective and efficient. The risk of adverse economic conditions is managed by ensuring proper monitoring of the business performance, and constant assessment of economic conditions and the appropriateness of the prevailing investment and business strategy.

#### c) *Market Risk*

The Group operates in areas that are highly competitive, and failure to compete effectively in terms of price, product quality and specification or levels of service can have an adverse impact on the Group's results. The market demand and supply condition is also one of the significant factors impacting the Group's performance.

The Group manages market risks by keeping track of the property market condition, strengthening its brand names and product quality, and setting sales strategies commensurate with the market demand.

#### d) *Financial Risk*

An effective and sound financial management system is essential to the Group's operations. The Group may be exposed and impacted by factors such as shortage of fund flow, increase in costs of funding and currency fluctuation.

The Group's finance team is embedded within the Group to provide financial management support by monitoring the financial market conditions and setting an appropriate financial strategy. The Group maintains an open and proactive relationship with the banking community, arranging different terms of loan facilities from different sources with different tenures and ensures continuous assessment of counterparty risks.



e) *Image/Reputation Risk*

The Group's reputation is one of its most valuable assets, playing a major part in the continued success of the business. The image of the Group may be affected by possible oppositions or protests during the property development process, delayed handover of residential units and quality issues.

The Group is committed to employ, train, develop and retain a diverse and talented workforce to cope with potential complaints and ensuring proper quality delivery. The Group frequently organises brand name promotion events and maintains good public relations.

f) *Sales, Leasing, Construction and Property Development Risk*

The Group continues to develop its well-planned property development and construction projects. Various measures have been well established to ensure that the development projects are built with high quality standards, on time and within budget.

Whilst the Group ensures that strong management controls are in place and monitoring systems are enforced, it has occasionally encountered increases in development and selling costs, delays in property development, contractors' incapability and contract disputes. Minimal risk has been encountered by Leasing operations.

## 12) Company Secretary

The company secretary is to support the Board by ensuring that there is good information flow and the board policy and procedures are strictly followed. The company secretary is responsible for advising the Board on governance matters and also facilitating the induction and professional development of Directors.

During the year, the company secretary took no less than 15 hours of relevant professional training.

## 13) Shareholder Rights and Investor Relations

The Board is committed to maintaining an ongoing dialogue with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The AGM of the Company provides a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The chairmen of all Board Committees are invited to attend the AGM. The Chairman of the Board and the chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the AGM. The Auditor is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence. The Company's policy is to involve shareholders in the Company's affairs and to communicate with them about the activities and prospects face-to-face at the AGM.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders at the general meeting to ensure that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company on the business day following the general meeting. Moreover, separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

## Corporate Governance Report

Under Section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at the general meetings are entitled to send a request to the Company to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the shareholder(s) making it and deposited at the registered office of the Company or sent to the Company's email address at [ir@hld.com](mailto:ir@hld.com). Besides, in relation to an annual general meeting which a company is required to hold, Sections 615 and 616 of the Companies Ordinance provide that shareholders representing at least 2.5% of the total voting rights of all shareholders of the company having a right to vote on the resolution at the annual general meeting or at least 50 shareholders having a right to vote on the resolution at the annual general meeting, may request the company to circulate a notice of the resolution for consideration at the annual general meeting, by sending a request, which must be authenticated by the shareholder(s) making it, in a hard copy form or in electronic form. Such request must be deposited at the registered office of the Company or sent to the Company's email address at [ir@hld.com](mailto:ir@hld.com).

The Company has maintained a Shareholders' Communication Policy which is available on the Company's website. Shareholders may make enquiries to the Board by contacting the Company either through the Company Investor Relations on telephone number 2908 8392 or email at [ir@hld.com](mailto:ir@hld.com) or directly by raising questions at general meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at <http://www.hld.com> where the Company's announcements and press releases, business developments and operations, financial information, corporate governance report and other information are posted.

# Report of the Directors

The Directors have pleasure in submitting to shareholders their annual report together with the audited financial statements for the year ended 31 December 2016.

## Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, construction, hotel operation, finance, department store operation, project management, investment holding and property management.

An analysis of the Group's revenue and contribution from operations by business and geographical segments is set out in note 15 to the financial statements on pages 190 to 195.

## Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and Review of Operations on pages 10 to 69 of this Annual Report. Possible risks and uncertainties that the Group may be facing are set out in the Financial Review on pages 72 to 83 and the Corporate Governance Report on pages 88 to 103. Particulars of important events affecting the Group since the end of the financial year end (if any) are provided in the Chairman's Statement on pages 10 to 39 and the Financial Statements on pages 129 to 237. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Five Year Financial Summary on pages 84 and 85 of this Annual Report. An environmental policy has been put in place to give due consideration to environment issues and minimise the impact of business operations on environment. In addition, discussions on the Group's environmental policies and relationships with employees, customers, suppliers and stakeholders are contained in the Sustainability and CSR and the Corporate Governance Report on pages 86 and 87 and pages 88 to 103 of this Annual Report respectively as well as the standalone Sustainability and CSR Report.

The Residential Properties (First-hand Sales) Ordinance (Cap. 621) ("RPFSSO") regulates the sales and marketing activities in relation to the first-hand residential properties in Hong Kong, with a view to enhancing the transparency, fairness and consumer protection of the sales of first-hand residential properties. The Group takes particular care to comply with the requirements of the RPFSSO through established internal procedures, as well as by engaging external professional advisors including architects, surveyors and solicitors in the checking of the accuracy of the information contained in sales brochures and other relevant documents made available to the public in connection with such sales.

The Group is also committed to safeguarding the security and proper use of personal data. When collecting, processing and using such data in the course of leasing, sale and marketing of properties, the Group complies with the Personal Data (Privacy) Ordinance (Cap. 486) and the guidelines issued by the Office of the Privacy Commissioner for Personal Data from time to time, with a view to protecting the privacy of, amongst others, the purchasers of its properties, in relation to personal data under its management.

In addition, the Group observes the requirements of trademarks, copyrights and other intellectual properties by obtaining the trademark and copyright owners' consent before the use of their products and artworks for the sale promotion of residential units. For the proper use and the protection of the Group's interests, chosen prestige brand names and chosen property names are registered under the Trade Marks Ordinance (Cap. 559) in Hong Kong.

The Company has complied with the requirements under the Companies Ordinance (Cap. 622), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance (Cap. 571) for, among other things, the disclosure of information and corporate governance. The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as the code of dealing in securities of the Company by the Directors.

## Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2016 are set out on pages 229 to 235.

## Group Profit

The profit of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 136 to 237.

## Dividends

An interim dividend of HK\$0.42 per share was paid on 20 September 2016. The Directors have recommended 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.

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 of Directors 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 of the Company 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.

## Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$21,000,000 (2015: HK\$23,000,000).

## Investment Properties and Other Property, Plant and Equipment

Particulars of the movements in investment properties and other property, plant and equipment during the year are set out in note 16 to the financial statements on pages 196 to 201.

## Bank Loans and Overdrafts, Guaranteed Notes and Medium Term Note Programme

Particulars of bank loans and overdrafts, Guaranteed Notes and Medium Term Note Programme of the Company and the Group as at 31 December 2016 are set out in notes 28 and 29 to the financial statements on pages 214 to 216, respectively.

## Interest Capitalised

The amount of interest capitalised by the Group during the year ended 31 December 2016 is set out in note 8(a) to the financial statements on page 176.

## Reserves

Particulars of the movements in reserves of the Company during the year ended 31 December 2016 are set out in note 39(b) to the financial statements on page 226.

## Shares Issued and Share Capital

During the year, the Company issued 330,673,246 bonus shares on the basis of one share for every ten shares held. The reason for the bonus shares issuance was to enable the shareholders to enjoy a pro-rata increase in the number of shares being held in the Company without incurring any costs.

Details of the Company's share capital are set out in note 39(c) to the financial statements on page 227.

## Group Financial Summary

The results, assets and liabilities of the Group for the last five years ended 31 December 2016 are summarised on pages 84 and 85.

## Development and Investment Properties

Particulars of development and investment properties of the Group are set out on pages 40 to 69.

## Directors' Emoluments

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 9 to the financial statements on pages 178 to 180.

## Directors

The Directors of the Company during the financial year and up to the date of this report were:

<b>Executive Directors</b>	<b>Non-executive Directors</b>	<b>Independent Non-executive Directors</b>
Dr Lee Shau Kee (Chairman and Managing Director)	Lee Pui Ling, Angelina Lee Tat Man	Kwong Che Keung, Gordon Professor Ko Ping Keung
Dr Lee Ka Kit (Vice Chairman)		Wu King Cheong Woo Ka Biu, Jackson
Dr Lam Ko Yin, Colin (Vice Chairman)		Leung Hay Man Professor Poon Chung Kwong
Lee Ka Shing (Vice Chairman)		Dr Chung Shui Ming, Timpson (retired on 2 June 2016)
Yip Ying Chee, John		
Suen Kwok Lam		
Lee King Yue (retired on 2 June 2016)		
Fung Lee Woon King		
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

Mr Lee King Yue and Dr Chung Shui Ming, Timpson retired as Directors at the close of the annual general meeting held on 2 June 2016 in order that Mr Lee King Yue would like to focus in his executive role in the Finance Department and Dr Chung Shui Ming, Timpson would like to devote more time to his other commitment. The Board would like to express its gratitude to them for their support, devotion and invaluable contribution.

Dr Lee Ka Kit, Mr Lee Ka Shing, Mr Suen Kwok Lam, Madam Fung Lee Woon King, Mr Lau Yum Chuen, Eddie, Mrs Lee Pui Ling, Angelina and Mr Wu King Cheong shall retire by rotation at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and the Corporate Governance Code and, being eligible, offer themselves for re-election.

Mr Wu King Cheong has been serving as Independent Non-executive Director of the Company for more than nine years. Under the Corporate Governance Code, his further appointment would be subject to separate resolution to be approved by the shareholders at the forthcoming annual general meeting.

The list of directors of the subsidiaries of the Company during the financial year and up to the date of this report is available on the Company's website at [www.hld.com](http://www.hld.com) under the "Corporate Governance" section.

## Disclosure of Interests

### Directors' Interests in Shares

As at 31 December 2016, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to SFO or the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### **Ordinary Shares** (unless otherwise specified)

##### Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1	11,681,944		2,645,951,081		2,657,633,025	73.06
	Lee Ka Kit	1				2,645,951,081	2,645,951,081	72.74
	Lee Ka Shing	1				2,645,951,081	2,645,951,081	72.74
	Lee Tat Man	2	165,514				165,514	0.00
	Lee Pui Ling, Angelina	3	48,501				48,501	0.00
	Fung Lee Woon King	4	1,873,132				1,873,132	0.05
	Woo Ka Biu, Jackson	5		2,928			2,928	0.00
Henderson Investment Limited	Lee Shau Kee	6			2,115,274,943		2,115,274,943	69.41
	Lee Ka Kit	6				2,115,274,943	2,115,274,943	69.41
	Lee Ka Shing	6				2,115,274,943	2,115,274,943	69.41
	Lee Tat Man	7	6,666				6,666	0.00
The Hong Kong and China Gas Company Limited	Lee Shau Kee	8			5,280,460,351		5,280,460,351	41.52
	Lee Ka Kit	8				5,280,460,351	5,280,460,351	41.52
	Lee Ka Shing	8				5,280,460,351	5,280,460,351	41.52
	Poon Chung Kwong	9				165,655	165,655	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	10	799,220		119,017,090		119,816,310	33.63
	Lee Ka Kit	10				119,017,090	119,017,090	33.41
	Lee Ka Shing	10				119,017,090	119,017,090	33.41
	Lam Ko Yin, Colin	11	150,000				150,000	0.04
	Fung Lee Woon King	12	465,100				465,100	0.13
	Leung Hay Man	13	2,250				2,250	0.00
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	14			323,340,100		323,340,100	46.68
	Lee Ka Kit	14				323,340,100	323,340,100	46.68
	Lee Ka Shing	14				323,340,100	323,340,100	46.68
Towngas China Company Limited	Lee Shau Kee	15			1,738,673,246		1,738,673,246	64.12
	Lee Ka Kit	15				1,738,673,246	1,738,673,246	64.12
	Lee Ka Shing	15				1,738,673,246	1,738,673,246	64.12

## Report of the Directors

### Ordinary Shares (unless otherwise specified) (continued)

#### Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Development Limited	Lee Chau Kee	16			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Chau Kee	17			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Chau Kee	18	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	16				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	17				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	18				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	16				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	17				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	18				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
Best Homes Limited	Lee Chau Kee	19			26,000		26,000	100.00
	Lee Ka Kit	19				26,000	26,000	100.00
	Lee Ka Shing	19				26,000	26,000	100.00
Feswin Investment Limited	Lee Ka Kit	20			5,000	5,000	10,000	100.00
Fordley Investment Limited	Fung Lee Woon King	21	2,000				2,000	20.00



## Report of the Directors

### Ordinary Shares (unless otherwise specified) (continued)

#### Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Furnline Limited	Lee Shau Kee	22			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	23			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	22				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	23				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	22				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	23				1 (B Share)	1 (B Share)	100.00
Gain Base Development Limited	Fung Lee Woon King	24	50				50	5.00
Heyfield Estate Limited*	Lee Shau Kee	25			100		100	100.00
	Lee Ka Kit	25				100	100	100.00
	Lee Ka Shing	25				100	100	100.00
Perfect Bright Properties Inc.	Lee Shau Kee	26			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	27			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	26				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	27				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	26				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	27				1 (B Share)	1 (B Share)	100.00

\* in members' voluntary winding up

Save as disclosed above, none of the Directors or Chief Executive of the Company or their associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

## Share Option Schemes

The Company and its subsidiaries have no share option schemes.

## Arrangements to Purchase Shares or Debentures

At no time during the year ended 31 December 2016 was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Equity-linked Agreements

No equity-linked agreements entered into by the Company were subsisting as at 31 December 2016 and the Company did not enter into any equity-linked agreements during the year under review.

## Substantial Shareholders' and Others' Interests

As at 31 December 2016, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### *Long Positions*

	No. of shares in which interested	% Interest
<b>Substantial Shareholders:</b>		
Rimmer (Cayman) Limited (Note 1)	2,645,951,081	72.74
Riddick (Cayman) Limited (Note 1)	2,645,951,081	72.74
Hopkins (Cayman) Limited (Note 1)	2,645,951,081	72.74
Henderson Development Limited (Note 1)	2,643,755,704	72.68
Yamina Investment Limited (Note 1)	1,187,280,220	32.64
Believegood Limited (Note 1)	599,465,015	16.48
South Base Limited (Note 1)	599,465,015	16.48
<b>Persons other than Substantial Shareholders:</b>		
Cameron Enterprise Inc. (Note 1)	278,847,043	7.67
Richbond Investment Limited (Note 1)	356,897,009	9.81

## Report of the Directors

### Notes:

1. Of these shares, Dr Lee Chau Kee was the beneficial owner of 11,681,944 shares, and for the remaining 2,645,951,081 shares, (i) 1,089,999,150 shares were owned by Henderson Development Limited (“HD”); (ii) 356,897,009 shares were owned by Richbond Investment Limited which was a wholly-owned subsidiary of HD; (iii) 278,847,043 shares were owned by Cameron Enterprise Inc.; 599,465,015 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 114,874,271 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 105,703,954 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 88,389,937 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; (iv) 8,202,766 shares were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited (“China Gas”) which was 41.52% held by Henderson Land Development Company Limited (“HL”) which in turn was 72.68% held by HD; (v) 2,195,377 shares were owned by Fu Sang Company Limited (“Fu Sang”); and (vi) 937,285 shares and 439,274 shares were respectively owned by Tako Assets Limited and Thommen Limited, both were wholly-owned subsidiaries of Hong Kong Ferry (Holdings) Company Limited (“HKF”) which in turn was 33.41% held by HL as set out in Note 10. Hopkins (Cayman) Limited (“Hopkins”) as trustee of a unit trust (the “Unit Trust”) owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr Lee Chau Kee. Dr Lee Chau Kee was taken to be interested in these shares by virtue of SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.
2. Mr Lee Tat Man was the beneficial owner of these shares.
3. Mrs Lee Pui Ling, Angelina was the beneficial owner of these shares.
4. Madam Fung Lee Woon King was the beneficial owner of these shares.
5. These shares were owned by the wife of Mr Woo Ka Biu, Jackson.
6. Of these shares, (i) 843,249,284 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by HL; and (ii) 3,000,000 shares and 1,406,000 shares were respectively owned by Tako Assets Limited and Thommen Limited, both of which were wholly-owned subsidiaries of HKF which in turn was 33.41% held by HL. Dr Lee Chau Kee was taken to be interested in HL as set out in Note 1 and Henderson Investment Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.
7. Mr Lee Tat Man was the beneficial owner of these shares.
8. Of these shares, 2,939,646,295 shares and 1,141,777,213 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 1,199,036,843 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by HL. Dr Lee Chau Kee was taken to be interested in HL as set out in Note 1 and China Gas by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.
9. These shares were owned by Professor Poon Chung Kwong and his wife jointly.
10. Of these shares, Dr Lee Chau Kee was the beneficial owner of 799,220 shares, and for the remaining 119,017,090 shares, 48,817,090 shares were held by Wiselin Investment Limited, 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Patata Enterprises Limited which in turn was 100% held by HL. Dr Lee Chau Kee was taken to be interested in HL as set out in Note 1 and HKF by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.

## Report of the Directors

11. *Dr Lam Ko Yin, Colin was the beneficial owner of these shares.*
12. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
13. *Mr Leung Hay Man was the beneficial owner of these shares.*
14. *This interest included 270,718,250 shares and 52,621,850 warrants, of which 100,612,750 shares and 20,122,550 warrants were owned by Higgins Holdings Limited (“Higgins”), 89,600,500 shares and 16,398,300 warrants were owned by Multiglade Holdings Limited (“Multiglade”) and 80,505,000 shares and 16,101,000 warrants were owned by Threadwell Limited (“Threadwell”), Higgins, Multiglade and Threadwell were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by HL. Dr Lee Shau Kee was taken to be interested in HL as set out in Note 1 and Miramar Hotel and Investment Company, Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
15. *These shares were owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr Lee Shau Kee was taken to be interested in China Gas as set out in Note 8 and Towngas China Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
16. *These shares were held by Hopkins as trustee of the Unit Trust.*
17. *These shares were held by Hopkins as trustee of the Unit Trust.*
18. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.*
19. *Of these shares, (i) 10,400 shares were owned by HL; and (ii) 15,600 shares were owned by Manifest Investments Limited which in turn was 100% held by HD.*
20. *Of these shares, (i) 5,000 shares were owned by Applecross Limited which was wholly-owned by Dr Lee Ka Kit; and (ii) 5,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by Henderson China Holdings Limited, an indirect wholly-owned subsidiary of HL.*
21. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
22. *These shares were owned by Jetwin International Limited.*
23. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by HL.*
24. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
25. *Of these shares, (i) 80 shares were owned by Tactwin Development Limited, a wholly-owned subsidiary of HL; (ii) 10 shares were owned by Henderson Finance Company Limited, a wholly-owned subsidiary of HD; and (iii) 5 shares each were owned by Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the “A Shares”) with the A Shares being entitled to all interests and, liable for all liabilities in Heyield Estate Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in such shares by virtue of the SFO.*
26. *These shares were owned by Jetwin International Limited.*
27. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by HL.*

## Interests in Transactions, Arrangements or Contracts and Connected Transactions/Continuing Connected Transactions

During the year under review, the Group entered into the following transactions and arrangements as described below with persons who are “connected persons” for the purposes of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”):

- (1) (i) Henderson Finance Company Limited, a wholly-owned subsidiary of Henderson Development Limited, made unsecured advances from time to time to Henderson Real Estate Agency Limited, Jetkey Development Limited and Perfect Grand Development Limited, subsidiaries of the Company, with interest chargeable on the balances outstanding from time to time by reference to HIBOR quoted by banks or Renminbi benchmark loan rates announced by the People’s Bank of China (where appropriate). As at 31 December 2016, the amounts of approximately HK\$164 million, HK\$26 million and HK\$126 million were due by Henderson Real Estate Agency Limited, Jetkey Development Limited and Perfect Grand Development Limited respectively to Henderson Finance Company Limited, which have been included in the financial statements under “Amount due to a fellow subsidiary”.
- (ii) Agreements for the management and construction of the properties of certain owner companies (the “Owner Companies”) indirectly controlled by the private trust of the family of Dr Lee Shau Kee entered into by the Owner Companies (including the Henderson Development Limited group) with Henderson Real Estate Agency Limited and the subsidiaries of E Man Construction Company Limited, wholly-owned subsidiaries of the Company, still subsisted at the year end date.

Dr Lee Shau Kee, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in the transactions, arrangements and contracts referred to in the above as directors of the Company’s ultimate holding company, Henderson Development Limited (and as more particularly described in the section “Disclosure of Interests” above) with respect to their interests in Henderson Development Limited or the trust.

- (2) As at 31 December 2016, there was a 50:50 joint venture company, Feswin Investment Limited (“Feswin”) owned by Henderson China Holdings Limited (“Henderson China”), a wholly-owned subsidiary of the Company and Dr Lee Ka Kit. Feswin had interest in a project at Lot 470 of Wanping Road South, Shanghai, PRC.

Dr Lee Ka Kit agreed to provide and had provided finance in the form of advances to Feswin in proportion to his equity interests therein, under an agreement entered into between Henderson China and Dr Lee Ka Kit on 15 March 1996, which provided that all existing and future advances made by Henderson China and Dr Lee Ka Kit to Feswin would be unsecured, on the same basis and at the same interest rate or without interest. As at 31 December 2016, such proportionate advances made by each of Henderson China group and Dr Lee Ka Kit to Feswin amounted to approximately HK\$80 million and from 1 January 2003 to 31 December 2016, no interest on the above advances was charged.

## Report of the Directors

- (3) The Company had the following continuing connected transactions/connected transaction, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

Sunlight Real Estate Investment Trust ("Sunlight REIT") being a trust in accordance with Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code") was regarded by the Hong Kong Stock Exchange as a connected person of the Company under the Listing Rules so long as the aggregate percentage unitholdings in Sunlight REIT held by the Group and the Shau Kee Financial Enterprises Limited group ("SKFE Group") (controlled by a family trust of Dr Lee Shau Kee, the Chairman and Managing Director of the Company) is above 30%.

As disclosed in the announcement dated 13 May 2015, new annual cap amounts in respect of each of the three financial years ending up to 31 December 2018 were set for the continuing connected transactions between the Group and Sunlight REIT group contemplated under the following agreements/deeds, and a third supplemental agreement dated 12 May 2015 (the "Third Supplemental Agreement") was made to extend the term of appointment of Henderson Sunlight Property Management Limited (the "Property Manager"), a wholly-owned subsidiary of the Company as follows:

- (a) a property management agreement dated 29 November 2006 (as supplemented by supplemental agreements respectively dated 28 April 2009, 25 June 2012 and further supplemented by the Third Supplemental Agreement) was entered into between Henderson Sunlight Asset Management Limited ("HSAM"), as manager of Sunlight REIT, and the Property Manager. Property holding companies under the Sunlight REIT group had also subsequently acceded to the said agreement. The agreement related to the provision of certain property management and lease management as well as marketing services in respect of the properties of Sunlight REIT at a fee of 3% per annum of the gross property revenue of the relevant properties of Sunlight REIT plus a commission on the base rent or licence fee for a tenancy or a licence secured. By the Third Supplemental Agreement entered into by HSAM and the Property Manager, the term of the appointment of the Property Manager for the provision of the said property related management services has been extended (the "Property Management Transactions") to 30 June 2018;
- (b) a trust deed dated 26 May 2006 (as supplemented by supplemental deeds dated 1 June 2006, 28 November 2006, 28 April 2009, 23 July 2010, 30 April 2012 and 16 March 2015 respectively while the last supplemental deed related to the expanded investment scope of Sunlight REIT in alignment with the amendments to the REIT Code, etc.) was entered into between Uplite Limited, a subsidiary of SKFE Group, as settlor, HSAM, a wholly-owned subsidiary of the Company, as manager, and HSBC Institutional Trust Services (Asia) Limited as trustee in respect of, among other things, the appointment of HSAM as the manager of Sunlight REIT for the management and operation of Sunlight REIT at a base fee not exceeding 0.4% per annum of the property values of Sunlight REIT for the relevant financial year and a variable fee of 3% per annum of the relevant net property income of Sunlight REIT payable in the form of cash and/or Sunlight REIT units as HSAM may elect. HSAM is also entitled to an acquisition fee in respect of acquisition of real estate by Sunlight REIT, and a divestment fee in respect of any real estate sold or divested by Sunlight REIT (where applicable) and certain reimbursement (the "Asset Management Transactions");

## Report of the Directors

- (c) agreements are from time to time entered into between the Property Manager and Megastrength Security Services Company Limited (“Megastrength”), the Company’s subsidiary in respect of the provision of security and related services for property(ies) of the Sunlight REIT for various terms, typically of durations ranging from short intervals up to 24 months at fees determined through a tendering/quotation procedure or on the basis of commercial negotiations. On 16 April 2015, both parties entered into an agreement in relation to the provision of related services to a property owned by Sunlight REIT Group for a term of 24 months from 1 May 2015 to 1 May 2017 (the “Security Services Transactions”) at a fixed monthly fee of approximately HK\$190,000 payable to Megastrength; and
- (d) agreements or arrangements are to be entered into from time to time between members of the Group and members of Sunlight REIT group for the provision of other ancillary property services for the properties of Sunlight REIT (the “Other Ancillary Property Services Transactions”).

The maximum aggregate sums to be paid by the Sunlight REIT group to the Group under the Property Management Transactions, the Asset Management Transactions, the Security Services Transactions and the Other Ancillary Property Services Transactions would not exceed the following:

Financial year ended 31 December 2016 (HK\$ million)	Financial year ending 31 December 2017 (HK\$ million)	Financial year ending 31 December 2018 (HK\$ million)
175	197	219

For the year ended 31 December 2016, the Group received HK\$49,486,000 for the Property Management Transactions, HK\$85,344,000 for the Asset Management Transactions and HK\$2,592,000 for the Security Services Transactions which in aggregate amounted to HK\$137,422,000; while no fee was received for the Other Ancillary Property Services Transactions (collectively the “Sunlight REIT Transactions”).

The Audit Department has reviewed the Sunlight REIT Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Sunlight REIT Transactions were conducted in accordance with the pricing mechanism under the relevant agreements. The Independent Non-executive Directors of the Company have reviewed and confirmed that such transactions are (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) in accordance with the terms of the respective agreements/deeds relating to the transactions in question and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Report of the Directors

The Auditor of the Company has also confirmed that nothing has come to the Auditor's attention that causes it to believe that the Sunlight REIT Transactions (a) have not received the approval of the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreements/deeds governing such transactions; and (d) have exceeded the respective caps as aforesaid.

The Company's Auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a signed copy of the said letter to the Hong Kong Stock Exchange.

- (4) As disclosed in the announcement dated 17 February 2017, Kingslee S.A., a wholly-owned subsidiary of the Company entered into the sale and purchase agreement with Houston Venture Limited (the "Purchaser"), a wholly-owned subsidiary of Shun Ho Property Investments Limited on 17 February 2017 whereby the Group agreed to sell all issued shares in Enhance Invest Inc. (a wholly-owned subsidiary of the Company) and the outstanding loan owing by Conradion Limited (a wholly-owned subsidiary of Enhance Invest Inc.) to Kingslee S.A. for a cash consideration of HK\$1,000,000,000 (subject to the adjustment), of which the completion was conditional upon the respective independent shareholders' approval of Shun Ho Property Investments Limited and Shun Ho Holdings Limited. If all the conditions are satisfied, the completion is expected to take place on or before 17 August 2017. Conradion Limited is the legal and beneficial owner of the property known as Newton Inn at No.88 Chun Yeung Street, North Point, Hong Kong.

Since (i) Dr Lee Shau Kee is a Director and a controlling shareholder of the Company; (ii) Mr William Cheng Kai Man is the son-in-law of Dr Lee Shau Kee and the brother-in-law of both Dr Lee Ka Kit and Mr Lee Ka Shing, both of whom are sons of Dr Lee Shau Kee and Directors of the Company; and (iii) the Purchaser is a wholly-owned subsidiary of Shun Ho Property Investments Limited which is majority-controlled and held indirectly by Mr William Cheng Kai Man, each of Shun Ho Property Investments Limited and the Purchaser is deemed to be a connected person of the Company under the Listing Rules. The sale and purchase agreement is regarded as a connected transaction of the Company under the Listing Rules.

- (5) The material related party transactions set out in note 38 to the financial statements on pages 223 and 224 include transactions that constitute continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as disclosed above, no other transaction, arrangement or contract of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the year end or at any time during the year.



## Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended and as at 31 December 2016 were as follows:

Dr Lee Shau Kee, the Chairman of the Company, and Dr Lee Ka Kit and Mr Lee Ka Shing, Directors of the Company, have deemed interests and/or held directorships in companies engaged in the same businesses of property investment, development and management in Hong Kong and mainland China as the Group. As those companies which engage in the same businesses as the Group are involved in the investment, development and management of properties of different types and/or in different locations, and the Group has been operating independently of, and at arm's length from, the businesses of those companies, no competition is considered to exist.

## Service Contracts

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## Management Contracts

No contracts (as defined in Section 543 of the Companies Ordinance (Cap. 622)) relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

## 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 ended 31 December 2016.

## Major Customers and Suppliers

For the year ended 31 December 2016:

- (1) the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchase; and
- (2) the aggregate amount of revenue attributable to the Group's five largest customers represented less than 30% of the Group's total revenue.

## Management Discussion and Analysis

A management discussion and analysis of the Group's results for the year ended 31 December 2016 is shown on pages 72 to 83.

## Sustainability and Corporate Social Responsibility

The standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

### Retirement Benefits Scheme

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Scheme Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. There were no forfeited contributions of the Scheme utilised during the year ended 31 December 2016 (2015: Nil). As at 31 December 2016, there were no forfeited contributions that could be utilised to reduce the Group's contributions to the Scheme (2015: Nil).

No employees of the Group were eligible to join the Fund or the Scheme on or after 1 December 2000.

Employees of the Group who are not members of the Fund or the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. The total amount so utilised in the year ended 31 December 2016 was HK\$1,500,000 (2015: HK\$1,800,000) and there was no balance available to be utilised as at 31 December 2016 (2015: Nil).

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the profit and loss account for the year ended 31 December 2016 were HK\$92,000,000 (2015: HK\$88,000,000).

### Permitted Indemnity

The Articles of Association of the Company provides that every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

In addition, the indemnity agreements made by the Company, which are currently in force and were in force throughout the financial year, contained permitted indemnity provisions (as permitted in Section 469(2) of the Companies Ordinance (Cap. 622)), for the benefit of the Directors of the Company. The Company has also taken out and maintained Director's liability insurance throughout the year, which provides appropriate cover for the Directors.

## Revolving Credit Agreements with Covenants of the Controlling Shareholders

For the year ended 31 December 2016, the Company through its wholly-owned subsidiaries as borrowers, had the following credit facilities from groups of syndicate of banks under separate guarantees given by the Company:

- (i) a 4-year term loan, 5-year term loan and revolving credit facilities of up to HK\$13,800,000,000 obtained in January 2014; and
- (ii) a 5-year term loan and revolving credit facilities of up to HK\$18,000,000,000 obtained in March 2015.

The HK\$10,000,000,000 5-year term loan and revolving credit facilities obtained in 2011 was repaid in June 2016.

In connection with each of the above credit facilities, it will be an event of default if the Company is deemed to be ultimately controlled by any person(s) other than Dr Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the outstanding amounts (if any) under the respective credit facilities may become due and payable on demand.

## Public Float

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

## Auditor

A resolution for the re-appointment of KPMG as Auditor of the Company is to be proposed at the forthcoming annual general meeting.

## Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 88 to 103.

On behalf of the Board

**Lee Shau Kee**

*Chairman*

Hong Kong, 21 March 2017

# Biographical Details of Directors and Senior Management

## Executive Directors

**Dr the Hon LEE Shau Kee**, *GBM, DBA (Hon), DSSc (Hon), LLD (Hon)*, aged 88, is the founder of the Company. He has been the Chairman and Managing Director of the Company since 1976 and has been engaged in property development in Hong Kong for more than 60 years. He is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. He is the founder, and continues to act as executive director of Henderson Investment Limited after his stepping down as chairman and managing director on 1 July 2015. He is also the chairman of The Hong Kong and China Gas Company Limited, the vice chairman of Sun Hung Kai Properties Limited as well as a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all of which are listed companies. Dr Lee was awarded Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2007. Dr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited, Believegood Limited and Cameron Enterprise Inc. which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Mr Lee Tat Man and Madam Fung Lee Woon King, the father of Ms Lee Pui Man, Margaret, Dr Lee Ka Kit and Mr Lee Ka Shing and the father-in-law of Mr Li Ning.

**Dr LEE Ka Kit**, *GBS, JP, DBA (Hon)*, aged 53, a Member of the Standing Committee of the 12th National Committee of the Chinese People's Political Consultative Conference, has been an Executive Director of the Company since 1985 and Vice Chairman since 1993. He was educated in the United Kingdom and has been primarily responsible for the development of the People's Republic of China business of Henderson Land Group since he joined the Company in 1985. He is the vice chairman of Henderson Development Limited ("Henderson Development"). He is also the vice chairman of Henderson Investment Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited and The Bank of East Asia, Limited, all of which are listed companies. He was appointed as a Justice of the Peace in 2009 and was awarded the Gold Bauhinia Star (GBS) in 2015 by the Government of the Hong Kong Special Administrative Region. He has been appointed Council Member of the Hong Kong Trade Development Council for two years from 1 January 2016. He was awarded an Honorary University Fellowship by The University of Hong Kong in 2009 and an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University in July 2014. He is a director of Henderson Development which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Ms Lee Pui Man, Margaret and Mr Lee Ka Shing, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

**Dr LAM Ko Yin, Colin**, *FCILT, FHKIoD, DB (Hon)*, aged 65, joined the Company in 1982 and has been an Executive Director since 1985 and Vice Chairman since 1993. He is also a member of the Remuneration Committee and the Nomination Committee of the Company. Dr Lam holds a B.Sc. (Honours) degree from The University of Hong Kong and has over 43 years' experience in banking and property development. He is also the chairman of Hong Kong Ferry (Holdings) Company Limited, the vice chairman of Henderson Investment Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, all of which are listed companies. He is the Deputy Chairman of The University of Hong Kong Foundation for Educational Development and Research and a Director of Fudan University Education Development Foundation. Dr Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008, and was conferred with a degree of Doctor of Business (Honoris Causa) by Macquarie University in 2015. He is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors. Dr Lam is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Believegood Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

## Biographical Details of Directors and Senior Management

**LEE Ka Shing**, aged 45, a Committee Member of the 12th Beijing Committee, and previously a Committee Member of the 10th Guangxi Zhuangzu Zizhiqu Committee and of the 10th Foshan Committee, of the Chinese People's Political Consultative Conference, has been an Executive Director of the Company since 1993 and Vice Chairman since 2005. He was educated in Canada. Mr Lee is the vice chairman of Henderson Development Limited ("Henderson Development"). On 1 July 2015, he was re-designated from the vice chairman to chairman and managing director of Henderson Investment Limited. He is also the chairman and chief executive officer of Miramar Hotel and Investment Company, Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited, all of which are listed companies. He is a member of The Court of The Hong Kong Polytechnic University. Mr Lee is a director of Henderson Development, Believegood Limited and Richbond Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Ms Lee Pui Man, Margaret and Dr Lee Ka Kit, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

**YIP Ying Chee, John, LLB, FCIS**, aged 68, has been an Executive Director of the Company since 1997. He graduated from The University of Hong Kong and the London School of Economics and is a solicitor and a certified public accountant. He has over 35 years' experience in corporate finance, and corporate and investment management.

**SUEN Kwok Lam, BBS, JP, MH, FHIREA**, aged 70, joined the Company in 1997 and has been an Executive Director of the Company since January 2002. He is also an independent non-executive director of China Overseas Property Holdings Limited, a listed company. Mr Suen is the Vice President of Hong Kong Institute of Real Estate Administrators and an individual Member of The Real Estate Developers Association of Hong Kong. He was the President of Hong Kong Association of Property Management Companies from 2003 to 2007. He has over 45 years' experience in property management. He was awarded the Medal of Honour in 2005 and the Bronze Bauhinia Star (BBS) in 2015 and appointed as a Justice of the Peace in 2011 by the Government of the Hong Kong Special Administrative Region respectively.

**FUNG LEE Woon King**, aged 78, has been an Executive Director of the Company since 1976. She joined Henderson Development Limited ("Henderson Development"), the parent company of the Company as treasurer in 1974 and has been an executive director of Henderson Development since 1979. She is also the Chief Treasurer of Henderson Development Group, Henderson Land Group and Henderson Investment Group. Madam Fung is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development, Yamina Investment Limited, Believegood Limited, Cameron Enterprise Inc., South Base Limited and Richbond Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. She is the sister of Dr Lee Shau Kee and Mr Lee Tat Man and the relative of Dr Lee Ka Kit, Mr Lee Ka Shing, Ms Lee Pui Man, Margaret and Mr Li Ning.

**LAU Yum Chuen, Eddie**, aged 70, has been an Executive Director of the Company since 1987. He has over 45 years' experience in banking, finance and investment. Mr Lau is also a non-executive director of Hong Kong Ferry (Holdings) Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, both of which are listed companies.

## Biographical Details of Directors and Senior Management

**KWOK Ping Ho**, *BSc, MSc, Post-Graduate Diploma in Surveying, ACIB*, aged 64, joined the Company in 1987 and has been an Executive Director since 1993. Mr Kwok holds a Master of Science degree in Administrative Sciences from the City University Graduate Business School, London, a Post-Graduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Bachelor of Science (Engineering) (Civil Engineering Group) Honours degree from the University of London. He is an Associate Member of The Chartered Institute of Bankers (A.C.I.B.) of the United Kingdom and had previously been a part-time lecturer for the MBA programme of The University of Hong Kong. In 2012, he was appointed as an Honorary Professor of the Department of Real Estate and Construction, Faculty of Architecture of The University of Hong Kong. He had worked in the international banking field for more than 11 years with postings in London, Chicago, Kuala Lumpur, Singapore as well as in Hong Kong before joining the Company and has over 30 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury and project management activities of Henderson Land Group since 1987, including group re-organisation, privatisation proposals and corporate acquisitions. He is also a non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. Mr Kwok is a director of Believegood Limited which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**WONG Ho Ming, Augustine**, *JP, MSc, MEcon, FHKIS, MRICS, MCI Arb, RPS (GP)*, aged 56, joined the Company in 1996 and has been an Executive Director of the Company since September 2010. He is presently the General Manager of Property Development Department as well. He is a registered professional surveyor and has over 32 years' experience in property appraisal, dealing and development. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2008.

## Non-executive Directors

**LEE Pui Ling, Angelina**, *SBS, JP, LLB, FCA*, aged 68, has been a Director of the Company since 1996 and was re-designated as Non-executive Director in 2004. Mrs Lee is a Partner of the firm of solicitors, Woo Kwan Lee & Lo, and is a Fellow of The Institute of Chartered Accountants in England and Wales. Mrs Lee is active in public service and is currently a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and a member of the Takeovers and Mergers Panel of the Securities and Futures Commission. She is also a non-executive director of Cheung Kong Infrastructure Holdings Limited and TOM Group Limited as well as an independent non-executive director of Great Eagle Holdings Limited, all of which are listed companies. Mrs Lee was previously a Non-executive Director of the Mandatory Provident Fund Schemes Authority and the Securities and Futures Commission.

**LEE Tat Man**, aged 79, has been a Director of the Company since 1976. He has been engaged in property development in Hong Kong for more than 40 years and is also an executive director of Henderson Investment Limited, a listed company. Mr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Cameron Enterprise Inc. which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Dr Lee Chau Kee and Madam Fung Lee Woon King and the relative of Dr Lee Ka Kit, Mr Lee Ka Shing, Ms Lee Pui Man, Margaret and Mr Li Ning.

### Independent Non-executive Directors

**KWONG Che Keung, Gordon, FCA**, aged 67, has been an Independent Non-executive Director of the Company since 2004. He is also the chairman of the Audit Committee and the Corporate Governance Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He graduated from The University of Hong Kong with a bachelor's degree in social sciences in 1972 and qualified as a chartered accountant in England in 1977. He was a partner of Pricewaterhouse from 1984 to 1998 and an independent member of the Council of The Stock Exchange of Hong Kong from 1992 to 1997. He is an independent non-executive director of Henderson Investment Limited, Agile Property Holdings Limited, China Power International Development Limited, Chow Tai Fook Jewellery Group Limited, CITIC Telecom International Holdings Limited, COSCO SHIPPING Holdings Co., Ltd. (formerly known as China COSCO Holdings Company Limited), Global Digital Creations Holdings Limited, NWS Holdings Limited, OP Financial Investments Limited, FSE Engineering Holdings Limited and Piraeus Port Authority S.A. (listed in Greece), all of which are listed companies.

**Professor KO Ping Keung, PhD, FIEEE, JP**, aged 66, has been an Independent Non-executive Director of the Company since 2004. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Professor Ko holds a Bachelor of Science (Honours) degree from The University of Hong Kong, a Doctor of Philosophy degree and a Master of Science degree from the University of California at Berkeley. He is an Adjunct Professor of Peking University and Tsinghua University and Emeritus Professor of Electrical & Electronic Engineering and the former Dean of the School of Engineering of The Hong Kong University of Science and Technology. He was the Vice Chairman of Electrical Engineering and Computer Science Department of the University of California at Berkeley in 1991 – 1993 and a member of Technical staff, Bell Labs, Holmdel, in 1982 – 1984. Professor Ko is an independent non-executive director of Henderson Investment Limited, a listed company.

**WU King Cheong, BBS, JP**, aged 66, has been an Independent Non-executive Director of the Company since 2005. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr Wu is the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Securities Association Limited. He is an independent non-executive director of Yau Lee Holdings Limited, Henderson Investment Limited, Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all of which are listed companies.

**WOO Ka Bui, Jackson, MA (Oxon)**, aged 54, has been an Independent Non-executive Director of the Company since 1 March 2012. He holds an MA degree in Jurisprudence from the Oxford University and is a qualified solicitor in England and Wales, Hong Kong Special Administrative Region and Australia. He is an honorary director of Tsinghua University, a China-Appointed Attesting Officer appointed by the Ministry of Justice, People's Republic of China and a Practising Solicitor Member on the panel of the Solicitors' Disciplinary Tribunal in The Hong Kong Special Administrative Region. Mr Woo was a partner of Ashurst Hong Kong and a director of N M Rothschild & Sons (Hong Kong) Limited ("Rothschild"). Prior to joining Rothschild, Mr Woo was a partner in the corporate finance department of Woo Kwan Lee & Lo. Mr Woo was an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as a non-executive director of the Company. He is a director of Kailey Group of Companies, the Chief Executive Officer of Challenge Capital Management Limited and a consultant of Guantao & Chow Solicitors and Notaries. He is also an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as a non-executive director of Sun Hung Kai Properties Limited, as well as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd., both of which are listed companies. He is the son of Sir Po-shing Woo.

## Biographical Details of Directors and Senior Management

**LEUNG Hay Man**, *FRICS, FCI Arb, FHKIS*, aged 82, has been a Director of the Company since 1981 and was re-designated as Non-executive Director in 2004. On 22 August 2012, Mr Leung was re-designated as Independent Non-executive Director of the Company. He is also a member of the Audit Committee and the Corporate Governance Committee of the Company. Mr Leung is a Chartered Surveyor. He is also an independent non-executive director of Henderson Investment Limited, Hong Kong Ferry (Holdings) Company Limited and The Hong Kong and China Gas Company Limited, all of which are listed companies.

**Professor POON Chung Kwong**, *GBS, JP, PhD, DSc*, aged 77, has been an Independent Non-executive Director and a member of the Corporate Governance Committee of the Company since 25 October 2012. Professor Poon obtained a Bachelor of Science (honours) degree from the University of Hong Kong, a Doctor of Philosophy degree and a Higher Doctor of Science degree from the University of London. He was a postdoctoral fellow at the California Institute of Technology, University of Southern California and University of Toronto. He also held the Honorary Degree of Doctor of Humanities from The Hong Kong Polytechnic University in 2009. Professor Poon is currently the Chairman of Virya Foundation Limited (a registered non-profit charitable organisation) and he is the President Emeritus and Emeritus Professor of The Hong Kong Polytechnic University and had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Professor Poon was appointed a non-official Justice of the Peace (JP) in 1989 and received the OBE award in 1991, the Gold Bauhinia Star (GBS) award in 2002 by the Government of the Hong Kong Special Administrative Region, and the “Leader of the Year Awards 2008 (Education)”. In addition, Professor Poon was appointed a member of the Legislative Council (1985 – 1991) and a member of the National Committee of the Chinese People’s Political Consultative Conference (1998 – 2013). Professor Poon is the Honorary Professor of a number of top-rated universities in mainland China. Professor Poon is a non-executive director of Lee & Man Paper Manufacturing Limited and an independent non-executive director of The Hong Kong and China Gas Company Limited, an associated company of the Company, Hopewell Highway Infrastructure Limited and Chevalier International Holdings Limited, all of which are listed companies. He served as an independent non-executive director of K.Wah International Holdings Limited, a listed company, until his resignation on 31 July 2015.



### Senior Management

**YU Wai Wai, JP, BA (AS), B Arch, FHKIA, HonFHKIPM, Registered Architect (HK), Authorized Person (Architect)**, aged 56, joined the Company in 2013 and is presently the General Manager of Project Management (1) Department. He is a Fellow member of the Hong Kong Institute of Architects, an Honorary Fellow of the Hong Kong Institute of Project Management and an Authorized Person (Architect). He has over 31 years of experience in property planning and design, project management, quality management, cost management, land acquisition and customer services. He also has experience in art and cultures, green building innovations, heritage and conservation developments. Mr Yu was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2013. Mr Yu was appointed as the Chairman of Professional Development Committee of the Estate Agents Authority in 2014. Prior to joining the company, he was an Executive Director of Sino Land Company Limited, a listed company.

**KWOK Man Cheung, Victor, BA (AS), B Arch (Dist), MSc (Con P Mgt), EMBA, FHKIA, MAPM, RIBA, Authorized Person (Architect), Registered Architect (HK), PRC Class 1 Registered Architect Qualification**, aged 63, joined the Company in 2005 and is presently the General Manager of Project Management (2) Department. He possesses professional qualifications of both a project manager and an architect. He holds a Bachelor of Architecture (Distinction) degree and a Master of Science in Construction Project Management degree from The University of Hong Kong, and an Executive Master of Business Administration degree from Tsinghua University. He is a Fellow Member of The Hong Kong Institute of Architects and a Member of Association of Project Management. He has over 38 years of professional experience in the property and construction industry of Hong Kong and mainland China.

**LEUNG Kam Leung, MSc, PGDMS, FHKIS, FRICS, RPS (GP)**, aged 63, joined the Company in 1997 and is presently the General Manager of Property Planning Department. He holds a Master of Science degree in International Real Estate and a Postgraduate Diploma in Management Studies. He is a Fellow Member of The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors and is also a Registered Professional Surveyor. He has over 40 years' experience in land and property development. Prior to joining the Company, Mr Leung held a Chief Estate Surveyor post in the Lands Department of the Hong Kong Government and had over 20 years' experience in government land disposal, land exchange, lease modification and premium assessment. He is currently serving on several government advisory committees.

**WONG Wing Hoo, Billy, BBS, JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE**, aged 59, joined the Company in 2006 and is presently the General Manager of Construction Department. He is a fellow member of the Institution of Civil Engineers, Hong Kong Institution of Engineers, Institution of Highways and Transportation and Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance Chapter 409. Mr Wong was appointed as a Justice of the Peace in 2005 and was awarded Bronze Bauhinia Star (BBS) in 2014 by the Government of the Hong Kong Special Administrative Region respectively. He previously served as President of Hong Kong Construction Association, Chairman of Construction Industry Training Authority and Chairman of Construction Industry Training Board. Mr Wong is currently a Director of Hong Kong Science & Technology Parks Corporation, Director of Hong Kong Airport Authority and Permanent Supervisor of Hong Kong Construction Association.

**CHENG Yuk Lun, Stephen, BSc(Eng), C Eng, MICE, MStructE, MHKIE, RPE, Registered Structural Engineer, Registered Geotechnical Engineer, Authorized Person (List II), PRC Class 1 Registered Structural Engineer Qualification**, aged 68, joined the Company in 1994 and is presently the Senior General Manager of the Engineering Department. He is a member of the Hong Kong Institution of Engineers, the Institution of Civil Engineers, and the Institution of Structural Engineers. He has over 35 years of professional experience in structural, civil, and geotechnical engineering.

## Biographical Details of Directors and Senior Management

**WONG Man Wa, Raymond, LLB, PCLL, Solicitor**, aged 51, joined the Company in December 2012 and is presently the Senior General Manager of Sales Department. He possesses professional qualification as a solicitor in Hong Kong and is presently sitting on a number of professional or government consultative or advisory committees. He is also an individual member of The Real Estate Developers Association of Hong Kong. He holds a Bachelor of Laws (LL.B) degree and a Postgraduate Certificate in Laws (PCLL) from The University of Hong Kong. Prior to joining the Company, he had over 22 years' practical experience as a lawyer specializing in land and property development related works and was a partner of one of the largest international law firms in Hong Kong.

**LAM Tat Man, Thomas, MEM(UTS), DMS, EHKIM, MHIREA, CHINA GBL MANAGER**, aged 57, joined the Company in 1983 and is presently the General Manager of Sales (1) Department. He holds a Master Degree in Engineering Management from the University of Technology, Sydney, Australia and a Diploma in Management Studies from The Hong Kong Polytechnic University. He is an Ordinary Member of Hong Kong Institute of Real Estate Administrators and an Executive Member of Hong Kong Institute of Marketing and a China Green Building Label Manager. He has over 33 years' experience in property sales and marketing.

**HAHN Ka Fai, Mark, BSc, MRICS, MHKIS, RPS (GP)**, aged 53, joined the company in 2013 and is presently the General Manager of Sales (2) Department. He is a member of both The Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He has over 30 years' experience in property acquisitions, developments, sales and marketing as well as fund raising involving projects in Hong Kong, mainland China, Taiwan and Japan. Prior to joining the Company, he was a founding Director of CY Leung & Co (now DTZ), Associate Director at Sino Land and Executive Director, Asia/Managing Director, Development at Grosvenor.

**CHOI Ngai Min, Michael, BBS, JP**, aged 59, joined the Company in 2013 and is presently the Incharge of China Sales and land acquisition. He graduated from the Business Management Department of the Hong Kong Baptist College and holds a Master Degree in Business Administration from the University of East Asia, Macau. He has been in the real estate industry for 36 years and has extensive knowledge and experience in the real estate markets in Hong Kong and mainland China. Mr Choi was appointed as a Justice of the Peace in 2005 and was awarded Bronze Bauhinia Star (BBS) in 2015 by the Government of the Hong Kong Special Administrative Region respectively. Currently, he is the Vice President of The Hong Kong Real Property Federation Limited.

**LEE Pui Man, Margaret, BHum (Hons)**, aged 56, joined the Company in 1984 and is presently the Senior General Manager of Portfolio Leasing Department. She holds a B Hum (Honours) degree from the University of London and has over 32 years' experience in marketing development. She is the eldest daughter of Dr Lee Shau Kee, the spouse of Mr Li Ning, the sister of Dr Lee Ka Kit and Mr Lee Ka Shing and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

**SIT Pak Wing, ACIS, FHIREA**, aged 69, joined the Company in 1991 and is presently the General Manager of Portfolio Leasing Department. He is a Member of The Institute of Chartered Secretaries and Administrators, a Fellow Member of the Hong Kong Institute of Real Estate Administrators and an individual Member of The Real Estate Developers Association of Hong Kong. He has over 40 years' experience in marketing development, leasing and property management.

**LI Ning, BSc, MBA**, aged 60, Mr Li, has been appointed an executive director of Henderson Investment Limited, a subsidiary of the Company since December 2014 and is also an executive director of Hong Kong Ferry (Holdings) Company Limited, an associated company of the Company. He holds a B.Sc. degree from Babson College and an M.B.A. degree from the University of Southern California. Mr Li set up the business of Citistore Stores in 1989 and has been managing the business since then in the capacity as a director, being a veteran with 25 years' experience in the department store business. Mr Li is the son-in-law of Dr Lee Shau Kee, the spouse of Ms Lee Pui Man, Margaret, the brother-in-law of Dr Lee Ka Kit and Mr Lee Ka Shing and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

## Biographical Details of Directors and Senior Management

**Dr WONG Kim Wing, Ball, BA (AS), B. Arch, PhD (Finance), FHKIA, Registered Architect (HK), Authorized Person (List 1, HK)**, aged 55, joined the Company in 2011 as the group consultant and serves to advise Henderson Land Group in his expert areas of sales and marketing, leasing, and project management. He is also presently acting as the General Manager of Asset Development Department and Comm. & Ind. Properties Department and advises Henderson Land Group on its asset development and asset branding of investment portfolio. Dr Wong is a Registered Architect and Authorized Person in Hong Kong and holds a PhD Degree in Finance from the Shanghai University of Finance and Economics. Prior to joining Henderson Land Group, he was an executive director of CC Land Holdings Ltd., and was the Director (Project and Planning) of The Link Management Limited (as Manager of The Link Real Estate Investment Trust). He had also served Sun Hung Kai Properties Group for over 10 years.

**LEE King Yue**, aged 90, joined Henderson Development Limited, the parent company of the Company on its incorporation in 1973 and has been engaged with Chairman in property development for over 60 years. Mr Lee was an Executive Director of the Company for about 40 years until his stepping down from the board on 2 June 2016. He is an executive director of Henderson Real Estate Agency Limited and also a director of various members of the Group. He performs a senior executive role in the Finance Department of the Group and is responsible for the Group's property mortgage loans business.

**LIU Cheung Yuen, Timon, BEc, FCPA, CA (Aust), FCS, FCIS**, aged 59, joined the Henderson Land Group in 2005 and is presently the Company Secretary of the Group. Mr Liu graduated from Monash University, Australia with a bachelor's degree in Economics. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries, and an associate of The Institute of Chartered Accountants in Australia. He has many years' experience in accounting, auditing, corporate finance, corporate investment and development, and company secretarial practice.

**WONG Wing Kee, Christopher, BSc (Econ), FCA**, aged 54, joined the Company in June 2007 and is presently the General Manager of Accounts Department. Mr Wong graduated from The London School of Economics and Political Science, University of London and is a fellow of The Institute of Chartered Accountants in England & Wales. He has over 30 years of experience in accounting, auditing, investment banking and corporate finance in the United Kingdom and in Hong Kong. Prior to joining the Company, Mr Wong was the Chief Financial Officer of Kerry Properties Limited between December 2004 and May 2007.

**NGAN Suet Fong, Bonnie, BBA**, aged 59, joined the Company in January 2005 and is presently the General Manager of Corporate Communications Department. Ms Ngan graduated from the University of Wisconsin, USA. She has over 30 years of experience in both banking and real estate industries, and has held senior positions in corporate communications, marketing, retail banking and e-business. Prior to joining the Company, Ms Ngan was the General Manager, Corporate Communications and Public Relations of Hong Kong Tourism Board.

# Financial Statements

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# Report of the Independent Auditor



## Independent auditor's report to the members of Henderson Land Development Company Limited

*(Incorporated in Hong Kong with limited liability)*

### Opinion

We have audited the consolidated financial statements of Henderson Land Development Company Limited (“the Company”) and its subsidiaries (“the Group”) set out on pages 136 to 237, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for opinion

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

### Key audit matters

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

## Report of the Independent Auditor

### Key audit matters (continued)

<b>Valuation of investment properties and investment properties under development</b>	
<i>Refer to note 16 to the consolidated financial statements on pages 196 to 201 and the accounting policies 2(j)(i) and 2(k)(i) on pages 152 to 153.</i>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Group holds a portfolio of investment properties and investment properties under development located in Hong Kong and across first and second-tier cities in mainland China with a fair value of HK\$131,850 million which accounted for 37% of the Group's total assets as at 31 December 2016. These properties comprise office premises, industrial premises, shopping malls, residential premises and car parking bays.</p> <p>The fair values of investment properties and investment properties under development as at 31 December 2016 were assessed by the directors based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair value of investment properties and investment properties under development recorded in the consolidated statement of profit or loss represented 29% of the Group's profit before taxation for the year ended 31 December 2016.</p> <p>We identified valuation of the Group's investment properties and investment properties under development as a key audit matter because of the significance of investment properties and investment properties under development to the Group's total assets and the significance of changes in fair value of investment properties and investment properties under development to the Group's profit before taxation and because the valuation of investment properties and investment properties under development can be inherently subjective and requires significant management judgement and estimation which increases the risk of error or potential management bias, particularly given the number and the diverse nature and location of the investment properties and investment properties under development held by the Group.</p>	<p>Our audit procedures to address the valuation of investment properties and investment properties under development included the following:</p> <ul style="list-style-type: none"><li>• obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties and investment properties under development was based;</li><li>• assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence;</li><li>• with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology and assessing the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data and by utilising the industry knowledge and experience of our internal property valuation specialists;</li><li>• comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis;</li><li>• conducting site visits to investment properties under development, on a sample basis, to observe the development progress and evaluating management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.</li></ul>

## Report of the Independent Auditor

### Key audit matters (continued)

#### **Assessing the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China**

*Refer to note 23 to the consolidated financial statements on page 209 and the accounting policy 2(o) on page 158.*

<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>As at 31 December 2016, the Group owned properties held for/under development for sale and completed properties for sale located in Hong Kong and across 15 cities in mainland China with carrying amounts of HK\$64,828 million in aggregate, which represented 18% of the Group's total assets at that date.</p> <p>These properties are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires estimations, including expected future selling prices and costs necessary to complete the sale of these properties, and is assessed by Group management with reference to the independent valuations carried out by the external property valuers for certain properties.</p> <p>Changes in government policies, which affect interest rates, the required reserve ratio for banks and/or mortgage requirements for second-home buyers, could lead to volatility in property prices, particularly for properties in mainland China.</p> <p>We identified the assessment of the net realisable value of the properties in mainland China as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future selling prices and future construction costs which increases the risk of error or potential management bias.</p>	<p>Our audit procedures to assess the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China included the following:</p> <ul style="list-style-type: none"><li>• obtaining and inspecting Group management's valuation assessments and/or the external valuation reports prepared by external property valuers engaged by the Group and on which the directors' assessment of the net realisable value of the properties held for/under development for sale and completed properties for sale was based;</li><li>• assessing the qualifications, experience and expertise of Group management and/or the external property valuers in the nature and locations of the properties being valued;</li><li>• with the assistance of our internal property valuation specialists, discussing with management and/or the external property valuers their valuation methodologies and assessing the key estimates and assumptions adopted in the valuations, including expected future selling prices and costs to completion, by comparing expected future selling prices to, where available, recently transacted prices for similar properties or the prices of comparable properties located in the vicinity of each development, and publicly available construction cost information for properties of a similar nature and location and by utilising the industry knowledge and experience of our internal property valuation specialists;</li><li>• conducting site visits to properties under development for sale, on a sample basis, to observe the development progress and evaluating the management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.</li></ul>

## Report of the Independent Auditor

### Key audit matters (continued)

#### Revenue recognition on sale of properties with legal completion pending at the end of the reporting period

Refer to note 5 to the consolidated financial statements on page 174 and the accounting policy 2(x)(i) on page 163.

The key audit matter	How the matter was addressed in our audit
<p>The Group recorded revenue from the sale of properties of HK\$17,679 million for the year ended 31 December 2016. Certain sales of properties in Hong Kong have been recognised as revenue during the reporting period where the legal completion of the sale is scheduled after the end of the reporting period.</p> <p>Revenue arising from sale of properties is recognised upon the later of the signing of a sale and purchase agreement and the physical completion of the properties. This is based on an underlying principle that it is probable that the economic benefits associated with the transaction will flow to the entity. This underlying principle is particularly critical in situations where revenue is recognised prior to the legal completion of a property sale transaction, which is the point in time when the full amount of the sale consideration is settled and legal title of the property is transferred.</p> <p>We identified revenue recognition for those property sale transactions in Hong Kong where legal completion is scheduled after the end of the reporting period as a key audit matter because the assessment of the likelihood of the economic benefits associated with the related transaction flowing to the Group is inherently subjective and requires significant management judgement as to whether they consider it is likely that the buyer will legally complete the sales transaction and pay all amounts due under the contract, particularly when property prices in Hong Kong can be volatile.</p>	<p>Our audit procedures in relation to revenue recognition for such property sale transactions included the following:</p> <ul style="list-style-type: none"><li>• assessing the design, implementation and operating effectiveness of management's internal controls over the recording of revenue from the sale of properties;</li><li>• assessing management's assessment of the probability of the legal completion of the pending property sale transactions occurring and, hence, the collection of the remaining balances of the consideration associated with such transactions where legal completion is scheduled after the end of the reporting period, with reference to the receipt of payments subsequent to the end of the reporting period and other relevant information such as the background of the buyers and their previous sales records with the Group, the timeliness of past settlement of deposits and instalments as well as correspondence between the Group and the buyers;</li><li>• comparing the above payment records to the underlying books and records of the Group, on a sample basis;</li><li>• assessing the financial ability of the relevant buyers to complete their purchase transactions by performing legal searches and/or inspecting other publicly available information;</li><li>• making enquiries of management about any potential delays or cancellations of the legal completion of property sales transactions.</li></ul>

#### Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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



## Report of the Independent Auditor

### Responsibilities of the directors for the consolidated financial statements

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

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

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

### Auditor's responsibility for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Report of the Independent Auditor

### Auditor's responsibility for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Felix Kwo Hang Lee.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

21 March 2017

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

	Note	2016 HK\$ million	2015 HK\$ million
<b>Revenue</b>	5	<b>25,568</b>	23,641
<b>Direct costs</b>		<b>(14,702)</b>	(12,669)
		<b>10,866</b>	10,972
Other revenue	6	<b>496</b>	450
Other net income	7	<b>2,283</b>	524
Selling and marketing expenses		<b>(1,212)</b>	(1,298)
Administrative expenses		<b>(1,903)</b>	(2,078)
<b>Profit from operations before changes in fair value of investment properties and investment properties under development</b>		<b>10,530</b>	8,570
Increase in fair value of investment properties and investment properties under development	16(a)	<b>7,013</b>	7,310
<b>Profit from operations after changes in fair value of investment properties and investment properties under development</b>		<b>17,543</b>	15,880
Finance costs	8(a)	<b>(882)</b>	(842)
Share of profits less losses of associates		<b>3,891</b>	4,247
Share of profits less losses of joint ventures		<b>3,889</b>	4,053
<b>Profit before taxation</b>	8	<b>24,441</b>	23,338
Income tax	11(a)	<b>(2,255)</b>	(1,464)
<b>Profit for the year</b>		<b>22,186</b>	21,874
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>21,916</b>	21,326
Non-controlling interests		<b>270</b>	548
<b>Profit for the year</b>		<b>22,186</b>	21,874
<b>Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)</b>			
<i>Basic and diluted</i>	14(a)	<b>HK\$6.03</b>	HK\$5.87*
<b>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)</b>			
<i>Basic and diluted</i>	14(b)	<b>HK\$3.90</b>	HK\$3.03*

\* Adjusted for the bonus issue effected in 2016.

The notes on pages 145 to 237 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 12.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Note	2016 HK\$ million	2015 HK\$ million
<b>Profit for the year</b>		<b>22,186</b>	21,874
<b>Other comprehensive income for the year (after tax and reclassification adjustments):</b>	13		
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)
<b>Total comprehensive income for the year</b>		<b>17,636</b>	16,947
<b>Attributable to:</b>			
Equity shareholders of the Company		17,386	16,461
Non-controlling interests		250	486
<b>Total comprehensive income for the year</b>		<b>17,636</b>	16,947

The notes on pages 145 to 237 form part of these financial statements.

# Consolidated Statement of Financial Position

at 31 December 2016

	Note	At 31 December 2016 HK\$ million	At 31 December 2015 HK\$ million
<b>Non-current assets</b>			
Investment properties	16	131,850	128,597
Other property, plant and equipment	16	1,419	1,692
Interest in associates	18	53,936	51,953
Interest in joint ventures	19	38,728	35,619
Derivative financial instruments	20	358	300
Other financial assets	21	10,854	8,322
Deferred tax assets	11(c)	377	527
		237,522	227,010
<b>Current assets</b>			
Deposits for acquisition of properties	22	4,608	4,820
Inventories	23	75,242	81,556
Trade and other receivables	24	10,651	8,371
Cash held by stakeholders		1,289	2,733
Cash and bank balances	26	22,966	11,779
		114,756	109,259
Asset of the disposal group classified as held for sale	32	3,220	–
		117,976	109,259
<b>Current liabilities</b>			
Trade and other payables	27	21,223	19,098
Bank loans and overdrafts	28	14,392	10,216
Guaranteed notes	29	5,760	2,192
Amount due to a fellow subsidiary	30	–	8
Tax payable		1,054	790
		42,429	32,304
Liabilities associated with asset of the disposal group classified as held for sale	32	32	–
		42,461	32,304
<b>Net current assets</b>		<b>75,515</b>	<b>76,955</b>
<b>Total assets less current liabilities</b>		<b>313,037</b>	<b>303,965</b>

## Consolidated Statement of Financial Position

at 31 December 2016

	Note	At 31 December 2016 HK\$ million	At 31 December 2015 HK\$ million
<b>Non-current liabilities</b>			
Bank loans	28	28,086	24,798
Guaranteed notes	29	7,846	13,705
Amount due to a fellow subsidiary	30	316	1,177
Derivative financial instruments	20	906	1,773
Deferred tax liabilities	11(c)	6,582	6,243
		43,736	47,696
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	31 39(c)	52,345	52,345
Other reserves		211,189	198,902
<b>Total equity attributable to equity shareholders of the Company</b>		263,534	251,247
<b>Non-controlling interests</b>		5,767	5,022
<b>TOTAL EQUITY</b>		269,301	256,269

Approved and authorised for issue by the Board of Directors on 21 March 2017.

**Lee Shau Kee**

**Lee Tat Man**

*Directors*

The notes on pages 145 to 237 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
		Share capital	Property revaluation reserve	Exchange reserve	Fair value reserve	Hedging reserve	Other reserves	Retained profits	Total		
		HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million		
<b>Balance at 1 January 2015</b>		52,010	16	7,884	515	(343)	3	178,065	238,150	5,067	243,217
<b>Changes in equity for 2015:</b>											
Profit for the year		–	–	–	–	–	–	21,326	21,326	548	21,874
Other comprehensive income for the year	13(c)	–	–	(4,293)	(256)	(305)	–	(11)	(4,865)	(62)	(4,927)
Total comprehensive income for the year		–	–	(4,293)	(256)	(305)	–	21,315	16,461	486	16,947
Transfer to other reserves		–	–	–	–	–	84	(84)	–	–	–
Shares issued in respect of scrip dividends	39(c)	335	–	–	–	–	–	–	335	–	335
Bonus shares issued	39(c)	–	–	–	–	–	–	–	–	–	–
Dividend approved in respect of the previous financial year	12(b)	–	–	–	–	–	–	(2,280)	(2,280)	–	(2,280)
Dividend declared and paid in respect of the current year	12(a)	–	–	–	–	–	–	(1,256)	(1,256)	–	(1,256)
Share of associates' reserves		–	–	–	–	–	5	(168)	(163)	–	(163)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(190)	(190)
Increase in shareholding in a subsidiary		–	–	–	–	–	–	–	–	(1)	(1)
Repayment to non-controlling interests, net		–	–	–	–	–	–	–	–	(340)	(340)
<b>Balance at 31 December 2015</b>		52,345	16	3,591	259	(648)	92	195,592	251,247	5,022	256,269

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Attributable to equity shareholders of the Company							Total	Non-controlling interests	Total equity
		Share capital	Property revaluation reserve	Exchange reserve	Fair value reserve	Hedging reserve	Other reserves	Retained profits			
		HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million			
<b>Balance at 1 January 2016</b>		52,345	16	3,591	259	(648)	92	195,592	251,247	5,022	256,269
<b>Changes in equity for 2016:</b>											
Profit for the year		-	-	-	-	-	-	21,916	21,916	270	22,186
Other comprehensive income for the year	13(c)	-	-	(4,957)	325	99	-	3	(4,530)	(20)	(4,550)
Total comprehensive income for the year		-	-	(4,957)	325	99	-	21,919	17,386	250	17,636
Transfer to other reserves		-	-	-	-	-	67	(67)	-	-	-
Bonus shares issued	39(c)	-	-	-	-	-	-	-	-	-	-
Dividend approved in respect of the previous financial year	12(b)	-	-	-	-	-	-	(3,538)	(3,538)	-	(3,538)
Dividend declared and paid in respect of the current year	12(a)	-	-	-	-	-	-	(1,528)	(1,528)	-	(1,528)
Share of associates' reserves		-	-	-	-	-	-	(33)	(33)	-	(33)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	(1,282)	(1,282)
Increase in shareholding in subsidiaries		-	-	-	-	-	-	-	-	(69)	(69)
Advance from non-controlling interests, net		-	-	-	-	-	-	-	-	1,846	1,846
<b>Balance at 31 December 2016</b>		52,345	16	(1,366)	584	(549)	159	212,345	263,534	5,767	269,301

The notes on pages 145 to 237 form part of these financial statements.



# Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	2016 HK\$ million	2015 HK\$ million
<b>Operating activities</b>			
Profit before taxation		24,441	23,338
Adjustments for:			
– Interest income		(612)	(529)
– Dividend income from investments in available-for-sale securities	8(d)	(263)	(175)
– Net loss/(gain) on disposal of investment properties and other property, plant and equipment	7	32	(160)
– Other property, plant and equipment written off	7	–	21
– Impairment loss on other property, plant and equipment	7	–	10
– Provision on inventories, net	7	332	147
– Bad debts written off	7	4	2
– Impairment loss on trade debtors	7	11	25
– Net gain on disposal of subsidiaries	7 & 34(b)	(1,959)	(52)
– 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 (as defined in note 7(iii))	7	–	(230)
– Impairment loss on available-for-sale securities	7	21	1
– Net gain on disposal of available-for-sale securities	7	(2)	(164)
– Net realised gain on redemption of held-to-maturity debt securities	7	(11)	–
– Net fair value gain on derivative financial instruments			
Interest rate swap contracts	7	(597)	–
Other derivatives	7	(78)	(84)
– (Reversal of impairment loss)/ impairment loss on held-to-maturity debt securities	7	(12)	15
– Cash flow hedges: reclassified from hedging reserve to profit or loss	7	12	–
– Increase in fair value of investment properties and investment properties under development	16(a)	(7,013)	(7,310)
– Finance costs	8(a)	882	842
– Amortisation and depreciation	8(d)	106	139
– Share of profits less losses of associates		(3,891)	(4,247)
– Share of profits less losses of joint ventures		(3,889)	(4,053)
– Net foreign exchange gain		(67)	(246)
<b>Operating profit before changes in working capital</b>		<b>7,447</b>	<b>7,290</b>
Increase in instalments and loan receivable		(3,209)	(1,052)
(Increase)/decrease in deposits for acquisition of properties		(23)	395
Decrease/(increase) in inventories (other than those acquired through purchase of subsidiaries and transfers to/from investment properties)		4,269	(7,030)
(Increase)/decrease in debtors, prepayments and deposits		(2,568)	476
(Increase)/decrease in gross amount due from customers for contract work		(4)	13

## Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	2016 HK\$ million	2015 HK\$ million
Decrease/(increase) in cash held by stakeholders		1,444	(1,014)
Increase in cash restricted for use		(520)	(968)
Decrease in creditors and accrued expenses		(501)	(8)
Decrease in gross amount due to customers for contract work		(14)	(38)
Increase in rental and other deposits		386	124
Increase in forward sales deposits received		576	2,095
<b>Cash generated from operations</b>		<b>7,283</b>	<b>283</b>
Interest received		266	207
Tax paid			
– Hong Kong		(866)	(465)
– Outside Hong Kong		(353)	(803)
<b>Net cash generated from/(used in) operating activities</b>		<b>6,330</b>	<b>(778)</b>
<b>Investing activities</b>			
Payment for purchase of investment properties and other property, plant and equipment		(3,414)	(729)
Proceeds from disposal of investment properties and other property, plant and equipment		923	321
Repayment from/(advances to) associates		256	(800)
Repayment from/(advances to) joint ventures		1,450	(683)
Additional investments in associates		(93)	(92)
Additional investments in joint ventures		–	(19)
Payment for purchase of available-for-sale securities		(299)	(266)
Payment for purchase of held-to-maturity debt securities		(31)	(191)
Payment for purchase of other derivatives		(2)	–
Proceeds from sale of available-for-sale securities		3	670
Proceeds from redemption of held-to-maturity debt securities		112	–
Net cash outflow in respect of the acquisition of subsidiaries	34(a)	–	(74)
Net cash inflow in respect of the disposal of subsidiaries	34(b)	4,301	106
Additional investments in subsidiaries		(69)	(44)
Interest received		304	323
Dividends received from associates		1,991	1,838
Dividends received from joint ventures		1,378	1,165
Net cash inflow from Compensation Payment of HIL after deducting cash and cash equivalents of the Joint Venture Company (as defined in note 7(iii))		–	439
Cash distribution from investment in available-for-sale securities		–	35
Dividends received from available-for-sale securities		216	167
Increase in deposits with banks and other financial institutions over three months of maturity at acquisition		(6,503)	(680)
<b>Net cash generated from investing activities</b>		<b>523</b>	<b>1,486</b>

## Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	2016 HK\$ million	2015 HK\$ million
<b>Financing activities</b>			
Advance from/ (repayment to) non-controlling interests, net		1,846	(342)
Proceeds from new bank loans		30,261	36,766
Repayment of bank loans		(22,825)	(28,062)
Repayment of guaranteed notes, net		(2,225)	–
Decrease in amount due to a fellow subsidiary		(869)	(3,820)
Interest and other borrowing costs paid		(1,691)	(1,890)
Dividends paid to equity shareholders of the Company		(5,066)	(3,201)
Dividends paid to non-controlling interests		(1,282)	(190)
<b>Net cash used in financing activities</b>		<b>(1,851)</b>	<b>(739)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,002</b>	<b>(31)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>8,465</b>	<b>8,560</b>
<b>Effect of foreign exchange rate changes</b>		<b>(628)</b>	<b>(64)</b>
<b>Cash and cash equivalents at 31 December</b>	26	<b>12,839</b>	<b>8,465</b>

The notes on pages 145 to 237 form part of these financial statements.

# Notes to the financial statements

for the year ended 31 December 2016

## 1 General information

Henderson Land Development Company Limited (“the Company”) is incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the Company’s registered office and principal place of business is 72/F-76/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, department store operation and management, hotel operation and management, construction, finance, project management, investment holding and property management.

## 2 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual 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. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance (Cap. 622) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). A summary of the significant accounting policies adopted by the Company and its subsidiaries (collectively referred to as “the Group”) is set out below.

### (b) 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.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

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:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
HKFRS 16, <i>Leases</i>	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 note 2(x)(i). 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.

#### (c) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

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

- financial instruments classified as available-for-sale securities (see note 2(g));
- derivative financial instruments (see note 2(h)); and
- investment properties and investment properties under development (see note 2(j)(i)).

The measurement basis of non-current assets held for sale and disposal groups is set out in note 2(l) below.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (c) Basis of preparation of the financial statements (continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and the key sources of estimation uncertainty are discussed in note 3.

#### (d) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (d) Subsidiaries and non-controlling interests (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, where appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

#### (e) Associates and joint arrangements

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(n)). Any excess of acquisition-date fair value over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (e) Associates and joint arrangements (continued)

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

- (ii) A joint operation is a joint arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses attributable to its interest with similar items on a line-by-line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

#### (f) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.



## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (g) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Non-derivative financial assets with fixed or determinable payments and maturity dates, and for which the Group has the positive ability and intention to hold to maturity, are classified as held-to-maturity debt securities. Held-to-maturity debt securities are initially recognised at fair value and at the end of each reporting period, they are measured at amortised cost using the effective interest method less impairment losses (see note 2(n)). Foreign exchange gains and losses resulting from changes in the amortised cost of held-to-maturity debt securities are also recognised in profit or loss.

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At the end of each reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(n)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in note 2(x)(vii).

When the investments are derecognised or impaired (see note 2(n)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

#### (h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(i)).

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on re-measurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the financial asset acquired or financial liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point in time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (j) Investment properties and other property, plant and equipment

##### (i) *Investment properties and investment properties under development*

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(m)(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties and investment properties under development are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(x)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(m)(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(m).

##### (ii) *Other property, plant and equipment*

The following items of other property, plant and equipment are stated at cost less accumulated depreciation (see note 2(k)) and impairment losses (see note 2(n)):

- hotel properties;
- other land and buildings;
- leasehold land classified as being held for own use under finance leases; and
- other items of plant and equipment.

The cost of self-constructed items of other property, plant and equipment includes the costs of materials and direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(z)).

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to retained profits and is not reclassified to profit or loss.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (k) Depreciation

(i) *Investment properties and investment properties under development*

No depreciation is provided on investment properties and investment properties under development.

(ii) *Hotel properties, leasehold land classified as being held for own use under finance leases and other land and buildings*

Depreciation is provided on the cost of the leasehold land of properties over the unexpired terms of the leases. Cost of buildings thereon is depreciated on a straight-line basis over the unexpired terms of the respective leases or 40 years, if shorter.

(iii) *Other items of plant and equipment*

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

– Leasehold improvements, furniture and fixtures	5 years
– Others	2 to 10 years

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

#### (l) **Non-current assets held for sale and disposal groups**

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then on initial classification as held for sale and until the completion of the disposal, the non-current assets (except for certain assets as explained below) or the disposal group are recognised at the lower of their carrying amounts and fair value less costs to sell. The principal exceptions to this measurement policy, so far as the financial statements of the Group are concerned, are deferred tax assets, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent re-measurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (m) Leased assets

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

#### (i) *Classification of assets leased to the Group*

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

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if it was held under a finance lease (see note 2(j)(i)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

#### (ii) *Operating lease charges*

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

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(j)(i)) or is held for/ under development for sale (see note 2(o)(ii)).

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (n) Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an available-for-sale security below its cost.

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

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(n)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (n) Impairment of assets (continued)

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

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

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

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

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

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

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (n) Impairment of assets (continued)

##### (ii) Impairment of other assets

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

- Other property, plant and equipment;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(1)).

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount  
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).
- Recognition of impairment losses  
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).
- Reversals of impairment losses  
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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



## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (n) Impairment of assets (continued)

##### (iii) *Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the aforementioned interim period, the Group applies the same impairment testing, recognition and reversal criteria (see notes 2(n)(i) and (ii)) as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which such interim period relates. Consequently, if the fair value of an available-for-sale security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

#### (o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

##### (i) *Leasehold land held for development for sale*

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition and the premium, if any, payable to the relevant government authorities. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

##### (ii) *Properties held for/under development for sale*

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised (see note 2(z)). Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

##### (iii) *Completed properties for sale*

The cost of completed properties for sale comprises the total land and development costs for that project, being all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined by apportionment attributable to the unsold properties. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs to be incurred in selling the property.

##### (iv) *Retail, catering stocks and trading goods*

Cost is calculated using the weighted average cost formula and comprises all costs of purchase. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (p) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(x)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customers are included under “Debtors, prepayments and deposits”. Amounts received before the related work is performed are included under “Creditors and accrued expenses”.

#### (q) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

#### (r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### (s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (t) Cash and cash equivalents

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

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (u) Employee benefits

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

#### (v) Income tax

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

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

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

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

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

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (v) Income tax (continued)

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

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

- in the case of current tax assets and liabilities, the Group intends either to realise the assets and settle the liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or realised, intend to realise the current tax assets and settle the current tax liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (w) Financial guarantees issued, provisions and contingent liabilities

##### (i) *Financial guarantees issued*

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(w)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

##### (ii) *Other provisions and contingent liabilities*

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

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

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (x) Revenue recognition

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

##### (i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit/a completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have been passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits received.

##### (ii) Rental income from operating leases

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

##### (iii) Interest income

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

##### (iv) Contract revenue

When the outcome of a construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total costs of the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that the contract costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable for such costs to be recoverable.

##### (v) Hotel operation

Income from hotel operation is recognised when services are provided.

##### (vi) Sale of goods

Revenue arising from the sale of goods from department store operation is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recognised after deduction of any trade discounts.

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (x) Revenue recognition (continued)

##### (vii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
  
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

#### (y) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the transaction dates. Items in the statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 July 2005 is translated into Hong Kong dollars at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

#### (z) Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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

## Notes to the financial statements

for the year ended 31 December 2016

### 2 Significant accounting policies (continued)

#### (aa) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a) above.
  - (vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of the Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

#### (ab) Segment reporting

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

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



## Notes to the financial statements

for the year ended 31 December 2016

### 3 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

#### (a) Valuation of investment properties and investment properties under development

As described in note 16, investment properties and investment properties under development are stated at fair value based on the valuation performed by an independent firm of professional surveyors.

In determining the fair value of investment properties, the valuers have based on a method of valuation which involves, inter alia, certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Investment properties under development are valued by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

#### (b) Write-down of inventories for property development

Management performs a regular review on the carrying amounts of inventories for property development. Based on management's review, write-down of inventories for property development will be made when the estimated net realisable value has declined below the carrying amount.

In determining the net realisable value of completed properties for sale, management refers to prevailing market data such as recent sales transactions, market survey reports available from independent property surveyors and internally available information, as bases for evaluation.

In respect of leasehold land held for development for sale and properties held for/under development for sale, the estimate of net realisable value requires the application of a risk-adjusted discount rate to the estimated future cash flows to be derived from those properties. These estimates require judgement as to the anticipated selling prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the estimated costs to completion of properties, the legal and regulatory framework and general market conditions.

#### (c) Impairment of non-current assets

If circumstances indicate that the carrying amounts of other property, plant and equipment may not be recoverable, the assets may be considered impaired and are tested for impairment. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the recoverable amount which requires significant judgements, the Group estimates the future cash flows to be derived from continuing use and ultimate disposal of the asset and applies an appropriate discount rate to these future cash flows.

#### (d) Recognition of deferred tax assets

At 31 December 2016, the Group has recognised deferred tax assets mainly in relation to the unused tax losses as set out in note 11(c). The realisability of deferred tax assets mainly depends on whether it is probable that future taxable profits will be available against which related tax benefits under the deferred tax assets can be utilised, in which case a partial reversal of deferred tax assets may arise and which amount will be recognised in profit or loss for the period in which such a reversal takes place.

## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, derivative financial instruments as well as instalments, loan, rental and other trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Transactions involving derivative financial instruments are also executed with counterparties of sound credit standing. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties 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.

The Group has no concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Except for the financial guarantees given by the Group as disclosed in note 37 to these financial statements, the Group does not provide any other guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24 to these financial statements.

## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments (continued)

#### (b) Liquidity risk

The treasury function of the Group is arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Given the amount due to a fellow subsidiary classified as non-current liabilities (see note 30), amounts due to associates and amounts due to joint ventures (see note 27) have no fixed terms of repayment, it is not practical to disclose their remaining contractual maturities at the end of the reporting period. Except for these, the following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2016						2015					
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow					
	Within	More than	More than			Carrying	Within	More than	More than			Carrying
	1 year or	1 year but	2 years but	More than	Total	amount	1 year or	1 year but	2 years but	More than	Total	amount
on demand	less than	less than	5 years	HK\$ million	HK\$ million	on demand	less than	less than	5 years	HK\$ million	HK\$ million	
HK\$ million	2 years	5 years	5 years	HK\$ million	HK\$ million	HK\$ million	2 years	5 years	5 years	HK\$ million	HK\$ million	
Bank loans and overdrafts	14,881	6,042	23,005	-	43,928	42,478	10,594	3,014	22,765	-	36,373	35,014
Guaranteed notes	6,211	1,469	6,655	713	15,048	13,606	2,925	6,215	7,066	1,902	18,108	15,897
Creditors and accrued expenses	7,748	-	-	-	7,748	7,748	8,461	24	-	-	8,485	8,484
Rental and other deposits	929	432	344	43	1,748	1,748	591	460	308	53	1,412	1,412
Amount due to a fellow subsidiary (current portion only)	-	-	-	-	-	-	8	-	-	-	8	8
	29,769	7,943	30,004	756	68,472	65,580	22,579	9,713	30,139	1,955	64,386	60,815

	2016					2015				
	Contractual undiscounted cash inflow/(outflow)					Contractual undiscounted cash inflow/(outflow)				
	Within	More than	More than			Within	More than	More than		
	1 year or	1 year but	2 years but	More than	Total	1 year or	1 year but	2 years but	More than	Total
on demand	less than	less than	5 years	HK\$ million	on demand	less than	less than	5 years	5 years	
HK\$ million	2 years	5 years	5 years	HK\$ million	HK\$ million	2 years	5 years	5 years	5 years	
<b>Derivative settled net:</b>										
Interest rate swap contracts held as cash flow hedging instruments	(247)	(247)	(555)	(321)	(1,370)	(292)	(289)	(778)	(542)	(1,901)
<b>Derivative settled gross:</b>										
Cross currency interest rate swap contracts held as cash flow hedging instruments:										
- outflow	(1,699)	(1,602)	(6,440)	(257)	(9,998)	(421)	(1,689)	(8,011)	(270)	(10,391)
- inflow	1,382	1,433	6,153	259	9,227	400	1,359	7,684	274	9,717

## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments (continued)

#### (c) Interest rate risk

The Group is exposed to interest rate risk through the impact of rates changes on interest-bearing borrowings which predominantly bear floating interest rates. The Group monitors closely its interest rate exposure and the level of fixed rate and floating rate borrowings and considers hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in (ii) below.

#### (i) Hedging

Cross currency interest rate swap contracts have been entered into with certain counterparty banks to enable the Group to secure a fixed interest rate level in relation to the Hong Kong dollar funding resulting from the conversion of the principal amounts of the guaranteed notes denominated in United States dollars ("US\$"), Pound Sterling ("£") and Singapore dollars ("S\$") (see note 29) and the bank borrowings denominated in Japanese Yen ("¥") into Hong Kong dollars. As a result, the Group hedges against the interest rate risk which may arise during the periods (i) between the issuance date and the maturity date in respect of the entire amount of each tranche of the guaranteed notes due 2017-2022 denominated in United States dollars and Pound Sterling with aggregate principal amounts of US\$162 million (2015: US\$162 million) and £50 million (2015: £50 million) (see note 29(a)) at 31 December 2016; (ii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes due 2019 denominated in United States dollars with aggregate principal amount of US\$500 million (2015: US\$500 million) (see note 29(b)) at 31 December 2016; (iii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes issued pursuant to the Medium Term Note Programme established by the Group on 30 August 2011 denominated in United States dollars and Singapore dollars ("S\$") with aggregate principal amounts of US\$10 million and S\$200 million (2015: US\$10 million and S\$200 million) (see note 29(c)) at 31 December 2016; and (iv) between the drawdown dates and the repayment dates in respect of the entire amount of the bank borrowings denominated in Japanese Yen with aggregate principal amount of ¥10,000 million (2015: ¥10,000 million) (see note 20(a)) at 31 December 2016.

Interest rate swap contracts have also been entered into with certain counterparty banks to hedge against the interest rate risk which may arise during the periods between the drawdown dates and the repayment dates in respect of certain bank borrowings which bear floating interest rates denominated in Hong Kong dollars with an aggregate principal amount of HK\$11,450 million (2015: HK\$11,700 million) (see note 20(a)) at 31 December 2016.

These cross currency interest rate swap contracts and interest rate swap contracts were designated as cash flow hedges of the interest rate risk and foreign currency risk in relation to these guaranteed notes and bank borrowings.

The swap contracts will mature between 28 February 2017 and 20 October 2026 (2015: between 13 June 2016 and 20 October 2026) matching the maturity dates of the related guaranteed notes and the repayment dates of the bank borrowings and have fixed swap interest rates ranging from 2.41% to 5.735% (2015: 1.63% to 5.735%) per annum. The fair value of such swap contracts entered into by the Group at 31 December 2016 amounted to HK\$201 million (2015: HK\$216 million) (derivative financial assets) and HK\$1,224 million (2015: HK\$1,776 million) (derivative financial liabilities), respectively. These amounts are recognised as derivative financial instruments at 31 December 2016 and 2015 (see note 20).

## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments (continued)

#### (c) Interest rate risk (continued)

##### (ii) Interest rate profile

The following table details the interest rate profile of the Group's bank loans and overdrafts, guaranteed notes and amount due to a fellow subsidiary at the end of the reporting period, after taking into account the effect of swap contracts designated as cash flow hedging instruments (see (i) above).

	2016		
	Fixed/ floating	Effective interest rate	Amount HK\$ million
Bank loans and overdrafts	<b>Floating</b>	<b>0.80%-4.86%</b>	<b>30,486</b>
Bank loans	<b>Fixed</b>	<b>2.57%-4.21%</b>	<b>11,992</b>
Guaranteed notes	<b>Fixed</b>	<b>4.03%-5.74%</b>	<b>13,606</b>
Amount due to a fellow subsidiary	<b>Floating</b>	<b>1.04%</b>	<b>316</b>
	2015		
	Fixed/ floating	Effective interest rate	Amount HK\$ million
Bank loans and overdrafts	Floating	0.66%-6.35%	22,839
Bank loans	Fixed	2.38%-4.18%	12,175
Guaranteed notes	Fixed	3.65%-5.74%	15,897
Amount due to a fellow subsidiary	Floating	1.45%-6.65%	1,185

##### (iii) Sensitivity analysis

Assuming that the interest rates had generally increased/decreased by not more than 100 basis points (2015: 100 basis points) at 31 December 2016 and the changes had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, with all other variables held constant, the Group's profit after tax and total equity attributable to equity shareholders of the Company would decrease/increase by HK\$118 million (2015: HK\$83 million).

The sensitivity analysis above assumes the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. The analysis is performed on the same basis for 2015.

## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments (continued)

#### (d) Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong and mainland China with its cash flows substantially denominated in Hong Kong dollars and Renminbi, respectively. The Group reports its results in Hong Kong dollars.

The Group's primary foreign currency exposure arises from its property development and investment activities in mainland China, as the functional currency of these operations is Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings with reference to the future Renminbi funding requirements from the investments and the related returns to be generated therefrom.

The Group is also exposed to foreign currency risk in respect of cash deposits denominated in United States dollars, Pound Sterling, Singapore dollars, Euros, Canadian dollars and Japanese Yen, certain available-for-sale securities and held-to-maturity debt securities which are denominated in United States dollars and certain available-for-sale securities which are denominated in Renminbi, and all of which were not hedged at 31 December 2016. At 31 December 2016, cash deposits denominated in United States dollars amounted to US\$1,154 million (2015: US\$313 million), certain available-for-sale securities and held-to-maturity debt securities denominated in United States dollars amounted to US\$313 million (2015: US\$299 million). The Group does not expect that there will be any significant currency risk associated with the aforementioned cash deposits, available-for-sale securities and held-to-maturity debt securities denominated in United States dollars given that the Hong Kong dollar is pegged to the United States dollar. For cash deposits denominated in Pound Sterling, Singapore dollars, Euros, Canadian dollars and Japanese Yen as well as the available-for-sale securities denominated in Renminbi, since the balances are insignificant, the Group considers the exposure to foreign currency risk to be low.

#### (i) Hedging

The foreign currency risk attributable to certain guaranteed notes denominated in United States dollars, Pound Sterling and Singapore dollars (see note 29) and certain bank borrowings denominated in Japanese Yen are being hedged by way of the cross currency interest rate swap contracts which were entered into between the Group and certain counterparty banks, as a result of which the principal amounts of certain guaranteed notes denominated in United States dollars, Pound Sterling and Singapore dollars and certain bank borrowings denominated in Japanese Yen were converted into Hong Kong dollars, details of which are set out in note 4(c) (i).

#### (ii) Sensitivity analysis

Assuming that the relevant foreign currencies had strengthened/weakened by not more than 5% (2015: 5%) at 31 December 2016 and the changes had been applied to each of the Group entities' exposure to foreign currency risk for both derivative and non-derivative financial instruments denominated in a currency other than the functional currency of the entity to which they relate and in existence at that date, with all other variables held constant, the Group's profit after tax and total equity attributable to equity shareholders of the Company would increase/decrease by HK\$59 million (2015: decrease/increase by HK\$15 million).

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2015.

## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments (continued)

#### (e) Equity price risk

The Group is exposed to equity price and fair value changes arising from financial investments classified as available-for-sale securities (see note 21).

Listed investments held in the available-for-sale securities portfolio have been chosen based on their long term growth potential and returns and are monitored regularly for performance against expectations. Assuming that the market value of the Group's listed available-for-sale securities had increased/decreased by not more than 10% (2015: 10%) at 31 December 2016, with all other variables held constant, the total equity attributable to equity shareholders of the Company would increase/decrease by HK\$311 million (2015: HK\$272 million). Any increase or decrease in the market value of the Group's listed available-for-sale securities would not affect the Group's profit after tax unless they are impaired.

The sensitivity analysis above assumes that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair value of the Group's financial investments would change in accordance with the historical correlation with the relevant stock market index or other relevant risk variables, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2015.

#### (f) Fair value measurement

##### (i) Financial assets and liabilities measured at fair value

###### Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments (continued)

#### (f) Fair value measurement (continued)

##### (i) Financial assets and liabilities measured at fair value (continued)

##### Fair value hierarchy (continued)

	Fair value at 31 December 2016	Fair value measurements at 31 December 2016 categorised into	
	HK\$ million	Level 1 HK\$ million	Level 2 HK\$ million
<b>Recurring fair value measurement</b>			
<i>Financial assets:</i>			
Available-for-sale securities:			
– Listed (note 21)	3,106	3,106	–
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	201	–	201
– Other derivatives (note 20)	164	164	–
<i>Financial liabilities:</i>			
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	898	–	898
– Interest rate swap contracts (note 20)	326	–	326
	Fair value at 31 December 2015	Fair value measurements at 31 December 2015 categorised into	
	HK\$ million	Level 1 HK\$ million	Level 2 HK\$ million
<b>Recurring fair value measurement</b>			
<i>Financial assets:</i>			
Available-for-sale securities:			
– Listed (note 21)	2,716	2,716	–
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	216	–	216
– Other derivatives (note 20)	84	84	–
<i>Financial liabilities:</i>			
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	928	–	928
– Interest rate swap contracts (note 20)	848	–	848

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.



## Notes to the financial statements

for the year ended 31 December 2016

### 4 Financial risk management and fair values of financial instruments (continued)

#### (f) Fair value measurement (continued)

##### (i) Financial assets and liabilities measured at fair value (continued)

###### Valuation techniques and inputs used in Level 2 fair value measurements

The fair values of cross currency interest rate swap contracts and interest rate swap contracts are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract, taking into account the current interest rates and the current creditworthiness of the swap counterparties.

##### (ii) Financial assets and liabilities measured at other than fair value

The carrying amounts of the Group's financial instruments measured at cost or amortised cost are not materially different from their fair values at 31 December 2016 and 2015 except as follows:

- **Certain amounts due from associates and joint ventures and all the amounts due to associates and joint ventures**  
Certain amounts due from associates and joint ventures and all the amounts due to associates and joint ventures are unsecured, interest-free and have no fixed terms of repayment. Given these terms it is not meaningful to quantify their fair values and therefore they are stated at cost.
- **Unlisted investments**  
Unlisted available-for-sale securities of HK\$378 million (2015: HK\$1,123 million) (see note 21) do not have a quoted market price in an active market and their fair values cannot be reliably measured. They are recognised at cost less impairment losses at the end of the reporting period.
- **Held-to-maturity debt securities**  
Held-to-maturity debt securities of HK\$1,083 million (2015: HK\$1,135 million) (see note 21) with fair value of HK\$1,136 million (2015: HK\$1,164 million) are recognised at amortised cost less impairment losses at the end of the reporting period.

### 5 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 HK\$ million	2015 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 15(b))	25,568	23,641

## Notes to the financial statements

for the year ended 31 December 2016

### 6 Other revenue

	2016 HK\$ million	2015 HK\$ million
Bank interest income	327	193
Other interest income (note)	9	124
Others	160	133
	<b>496</b>	<b>450</b>

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.

### 7 Other net income

	2016 HK\$ million	2015 HK\$ million
Net gain on disposal of subsidiaries (note 34(b))	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 (note 16(a))	–	(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 (notes 15(c) and 24(b))	(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)
	<b>2,283</b>	<b>524</b>

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.

## Notes to the financial statements

for the year ended 31 December 2016

### 7 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.

### 8 Profit before taxation

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

	2016 HK\$ million	2015 HK\$ million
<b>(a) Finance costs:</b>		
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
	<b>1,740</b>	1,795
Less: Amount capitalised (note)	<b>(858)</b>	(953)
	<b>882</b>	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.

	2016 HK\$ million	2015 HK\$ million
<b>(b) Directors’ emoluments</b>	<b>177</b>	176

Details of the directors’ emoluments are set out in note 9.

## Notes to the financial statements

for the year ended 31 December 2016

### 8 Profit before taxation (continued)

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

	2016 HK\$ million	2015 HK\$ million
<b>(c) Staff costs (other than directors' emoluments):</b>		
Salaries, wages and other benefits	1,952	1,944
Contributions to defined contribution retirement plans	88	84
	<b>2,040</b>	<b>2,028</b>
<b>(d) Other items:</b>		
Depreciation (note 16(a))	106	129
Net foreign exchange gain	(210)	(207)
Cash flow hedges: net foreign exchange loss reclassified from equity	102	114
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 from others 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.

## Notes to the financial statements

for the year ended 31 December 2016

### 9 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows:

	2016				Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits-in-kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	
<b>Executive Directors</b>					
Dr Lee Shau Kee	120	21,881	–	–	22,001
Dr Lee Ka Kit	120	18,350	592	18	19,080
Dr Lam Ko Yin, Colin	120	9,645	20,750	577	31,092
Lee Ka Shing	120	12,859	3,000	697	16,676
Yip Ying Chee, John	100	8,883	14,590	527	24,100
Suen Kwok Lam	100	6,805	7,674	405	14,984
Lee King Yue*	50	3,705	305	220	4,280
Fung Lee Woon King	100	4,885	4,640	290	9,915
Lau Yum Chuen, Eddie	100	17	–	–	117
Kwok Ping Ho	200	4,709	1,326	282	6,517
Wong Ho Ming, Augustine	100	9,185	14,516	545	24,346
<b>Non-executive Directors</b>					
Lee Pui Ling, Angelina	150	150	–	–	300
Lee Tat Man	120	–	–	–	120
<b>Independent Non-executive Directors</b>					
Kwong Che Keung, Gordon	220	580	–	–	800
Professor Ko Ping Keung	220	530	–	–	750
Wu King Cheong	220	530	–	–	750
Leung Hay Man	270	680	–	–	950
Woo Ka Biu, Jackson	200	–	–	–	200
Professor Poon Chung Kwong	200	100	–	–	300
Dr Chung Shui Ming, Timpson**	100	50	–	–	150
<b>Total for the year ended 31 December 2016</b>	<b>2,930</b>	<b>103,544</b>	<b>67,393</b>	<b>3,561</b>	<b>177,428</b>

\* Ceased to be Executive Director of the Company with effect from 2 June 2016.

\*\* Ceased to be Independent Non-executive Director of the Company with effect from 2 June 2016.

## Notes to the financial statements

for the year ended 31 December 2016

### 9 Directors' emoluments (continued)

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows: (continued)

	2015				
	Directors' fees HK\$'000	Salaries, allowances and benefits-in-kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
<b>Executive Directors</b>					
Dr Lee Shau Kee	120	21,766	–	–	21,886
Dr Lee Ka Kit	120	17,689	572	18	18,399
Dr Lam Ko Yin, Colin	120	9,270	20,750	555	30,695
Lee Ka Shing	120	12,899	2,828	670	16,517
Yip Ying Chee, John	100	8,467	14,560	507	23,634
Suen Kwok Lam	100	6,536	6,423	390	13,449
Lee King Yue	100	3,562	293	211	4,166
Fung Lee Woon King	100	4,673	4,386	279	9,438
Lau Yum Chuen, Eddie	100	16	–	–	116
Li Ning*	70	3,648	581	218	4,517
Kwok Ping Ho	200	4,526	1,273	271	6,270
Wong Ho Ming, Augustine	100	8,678	12,950	519	22,247
<b>Non-executive Directors</b>					
Lee Pui Ling, Angelina	150	150	–	–	300
Lee Tat Man	120	–	–	–	120
<b>Independent Non-executive Directors</b>					
Kwong Che Keung, Gordon	220	530	–	–	750
Professor Ko Ping Keung	220	530	–	–	750
Wu King Cheong	220	530	–	–	750
Leung Hay Man	270	680	–	–	950
Woo Ka Biu, Jackson	200	–	–	–	200
Professor Poon Chung Kwong	200	100	–	–	300
Dr Chung Shui Ming, Timpson	200	100	–	–	300
Au Siu Kee, Alexander**	510	190	–	–	700
<b>Total for the year ended 31 December 2015</b>	<b>3,660</b>	<b>104,540</b>	<b>64,616</b>	<b>3,638</b>	<b>176,454</b>

\* Ceased to be Executive Director of the Company with effect from 2 June 2015.

\*\* Ceased to be Independent Non-executive Director of the Company with effect from 2 June 2015.

## Notes to the financial statements

for the year ended 31 December 2016

### 9 Directors' emoluments (continued)

During the years ended 31 December 2016 and 2015:

- (i) all the directors' fees payable to the executive directors of the Company were in respect of their services as directors of the Company and/ or its subsidiary undertakings, and all the salaries, allowances, benefits-in-kind, discretionary bonuses and retirement scheme contributions payable to the executive directors of the Company were in respect of their services in connection with the management of the affairs of the Company and/or its subsidiary undertakings; and
- (ii) all the emoluments payable to the non-executive directors and the independent non-executive directors of the Company were in respect of their services as directors of the Company and/ or its subsidiary undertakings.

There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities for disclosure pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance (Cap. 622) and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (2015: None).

During the year ended 31 December 2016 and at 31 December 2016, there were no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company and his/her connected entities had a material interest, subsisted at the end of the reporting period or at any time during the year for disclosure pursuant to section 383 (1)(e) of the Hong Kong Companies Ordinance (Cap. 622) and Part 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (2015: None).

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

## Notes to the financial statements

for the year ended 31 December 2016

### 10 Emoluments of five highest paid individuals and senior management

#### (a) Emoluments of five highest paid individuals

Of the five individuals with the highest emoluments, all (2015: all) of them are directors whose emoluments are disclosed in note 9.

#### (b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in notes 9 and 10(a) respectively, the emoluments of the senior management whose profiles are set out in the section “Biographical Details of Directors and Senior Management” of the annual report (of which these financial statements form a part) fell within the following bands:

	2016 Number of individuals	2015 Number of individuals
<b>Emolument band (HK\$) (note)</b>		
\$3,000,001 to \$4,000,000	1	1
\$4,000,001 to \$5,000,000	3	2
\$5,000,001 to \$6,000,000	3	3
\$6,000,001 to \$7,000,000	1	1
\$7,000,001 to \$8,000,000	2	1
\$8,000,001 to \$9,000,000	–	–
\$9,000,001 to \$10,000,000	–	3
\$10,000,001 to \$11,000,000	3	1
\$11,000,001 to \$12,000,000	1	–
\$12,000,001 to \$13,000,000	–	2
\$13,000,001 to \$14,000,000	3	1
	<b>17</b>	<b>15</b>

Note: Including salaries, allowances and benefits-in-kind, discretionary bonuses and retirement scheme contributions.



## Notes to the financial statements

for the year ended 31 December 2016

### 11 Income tax

(a) **Income tax in the consolidated statement of profit or loss represents:**

	2016 HK\$ million	2015 HK\$ million
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Provision for the year	756	843
(Over)/under-provision in respect of prior years	(9)	19
	747	862
<b>Current tax – Provision for taxation outside Hong Kong</b>		
Provision for the year	471	408
Over-provision in respect of prior years	(37)	(41)
	434	367
<b>Current tax – Provision for Land Appreciation Tax</b>		
Provision for the year	263	100
Over-provision in respect of prior years	(5)	(93)
	258	7
<b>Deferred tax</b>		
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.

## Notes to the financial statements

for the year ended 31 December 2016

### 11 Income tax (continued)

#### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 HK\$ million	2015 HK\$ million
Profit before taxation	24,441	23,338
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	4,216	3,983
Tax effect of share of profits less losses of associates and joint ventures	(1,301)	(1,392)
Tax effect of non-deductible expenses	268	120
Tax effect of non-taxable revenue	(1,233)	(1,459)
Tax effect of temporary differences not recognised in prior years now recognised	–	9
Tax effect of current year's tax losses not recognised	257	312
Tax effect of prior years' tax losses utilised	(104)	(71)
Tax effect of unused tax losses not recognised in prior years now recognised	(9)	(23)
Tax indemnity received	(3)	(5)
One-off rebate of Hong Kong Profits Tax	(2)	(2)
Land Appreciation Tax	194	5
Withholding tax	5	9
Over-provision in respect of prior years, net	(33)	(22)
Actual tax expense	2,255	1,464

## Notes to the financial statements

for the year ended 31 December 2016

### 11 Income tax (continued)

#### (c) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK\$ million	Revaluation of properties HK\$ million	Elimination and capitalisation of expenses HK\$ million	Fair value adjustment on business combination HK\$ million	Consideration receivable on disposal of toll fee collection right of toll bridges HK\$ million	Tax losses HK\$ million	Others HK\$ million	Total HK\$ million
At 1 January 2015	1,352	3,366	572	1,061	6	(497)	(90)	5,770
Exchange adjustments	(31)	(200)	(3)	-	-	-	-	(234)
Charged/(credited) to profit or loss	164	11	(64)	(26)	-	144	(1)	228
Credited to reserves (note 13(a))	-	-	-	-	-	-	(48)	(48)
At 31 December 2015	1,485	3,177	505	1,035	6	(353)	(139)	5,716
At 1 January 2016	1,485	3,177	505	1,035	6	(353)	(139)	5,716
Exchange adjustments	(36)	(264)	(2)	(3)	-	-	-	(305)
Charged/(credited) to profit or loss	180	445	(10)	56	-	48	97	816
Charged to reserves (note 13(a))	-	-	-	-	-	-	8	8
Disposal of subsidiaries (note 34(b))	(30)	-	-	-	-	-	-	(30)
At 31 December 2016	1,599	3,358	493	1,088	6	(305)	(34)	6,205

	2016 HK\$ million	2015 HK\$ million
Net deferred tax assets recognised in the consolidated statement of financial position	(377)	(527)
Net deferred tax liabilities recognised in the consolidated statement of financial position	6,582	6,243
	6,205	5,716

## Notes to the financial statements

for the year ended 31 December 2016

### 11 Income tax (continued)

#### (d) Deferred tax assets not recognised:

Deferred tax assets have not been recognised in respect of the following items:

	2016		2015	
	Deductible temporary differences/ unused tax losses HK\$ million	Deferred tax assets not recognised HK\$ million	Deductible temporary differences/ unused tax losses HK\$ million	Deferred tax assets not recognised HK\$ million
Deductible temporary differences	4	1	14	2
Future benefits of tax losses				
Hong Kong (note (i))				
– Assessed by the Inland Revenue Department	3,042	502	2,430	401
– Not yet assessed by the Inland Revenue Department	6,781	1,118	6,481	1,069
Outside Hong Kong (note (ii))	964	241	899	225
	<b>10,787</b>	<b>1,861</b>	9,810	1,695
	<b>10,791</b>	<b>1,862</b>	9,824	1,697

Notes:

(i) These tax losses do not expire under current tax legislation.

(ii) These tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

The Group has not recognised deferred tax assets in respect of deductible temporary differences and unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

## Notes to the financial statements

for the year ended 31 December 2016

### 12 Dividends

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

	2016 HK\$ million	2015 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
	<b>5,638</b>	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 HK\$ million	2015 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

### 13 Other comprehensive income

#### (a) Tax effects relating to each component of other comprehensive income

	2016			2015		
	Pre-tax amount HK\$ million	Tax expense HK\$ million	Net-of-tax amount HK\$ million	Pre-tax amount HK\$ million	Tax credit HK\$ million	Net-of-tax amount HK\$ million
Exchange differences: net movement in the exchange reserve	(3,577)	–	(3,577)	(3,253)	–	(3,253)
Cash flow hedges: net movement in the hedging reserve	53	(8)	45	(291)	48	(243)
Available-for-sale securities: net movement in the fair value reserve	68	–	68	164	–	164
Share of other comprehensive income of associates and joint ventures	(1,086)	–	(1,086)	(1,595)	–	(1,595)
Other comprehensive income for the year	(4,542)	(8)	(4,550)	(4,975)	48	(4,927)
	(note 11(c))			(note 11(c))		

## Notes to the financial statements

for the year ended 31 December 2016

### 13 Other comprehensive income (continued)

#### (b) Components of other comprehensive income, including reclassification adjustments

	2016 HK\$ million	2015 HK\$ million
Exchange differences:		
– translation of financial statements of foreign entities	(3,559)	(3,115)
– reclassification adjustments for amounts transferred to profit or loss on reversal of the exchange reserve attributable to the Joint Venture Company (see note 7(iii))	–	(138)
– reclassification adjustments for amounts transferred to profit or loss on disposal of subsidiaries (see note 34(b))	(18)	–
Net movement in the exchange reserve during the year recognised in other comprehensive income	(3,577)	(3,253)
Cash flow hedges:		
– effective portion of changes in fair value of hedging instruments recognised during the year	536	(405)
– reclassification adjustments for amounts transferred to profit or loss	(483)	114
– net deferred tax (charged)/credited to other comprehensive income	(8)	48
Net movement in the hedging reserve during the year recognised in other comprehensive income	45	(243)
Available-for-sale securities:		
– changes in fair value recognised during the year	49	327
– reclassification adjustments for amounts transferred to profit or loss on disposal	(2)	(164)
– reclassification adjustments for amounts transferred to profit or loss on impairment	21	1
Net movement in the fair value reserve during the year recognised in other comprehensive income	68	164

## Notes to the financial statements

for the year ended 31 December 2016

### 13 Other comprehensive income (continued)

#### (c) For each component of equity

	Attributable to equity shareholders of the Company							Non-controlling interests	Total other comprehensive income
	Property revaluation reserve	Exchange reserve	Fair value reserve	Hedging reserve	Other reserves	Retained profits	Total		
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million		
2015									
Exchange differences:									
– translation of financial statements of foreign entities	–	(3,095)	–	–	–	–	(3,095)	(20)	(3,115)
– reclassification adjustments for amounts transferred to profit or loss on reversal of the exchange reserve attributable to the Joint Venture Company (see note 7(iii))	–	(96)	–	–	–	–	(96)	(42)	(138)
Cash flow hedges:									
– effective portion of changes in fair value, net of deferred tax	–	–	–	(338)	–	–	(338)	–	(338)
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	95	–	–	95	–	95
Available-for-sale securities:									
– changes in fair value	–	–	327	–	–	–	327	–	327
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	(164)	–	–	–	(164)	–	(164)
– reclassification adjustments for amounts transferred to profit or loss on impairment	–	–	1	–	–	–	1	–	1
Share of other comprehensive income of associates and joint ventures	–	(1,102)	(420)	(62)	–	(11)	(1,595)	–	(1,595)
Other comprehensive income for the year	–	(4,293)	(256)	(305)	–	(11)	(4,865)	(62)	(4,927)
2016									
Exchange differences:									
– translation of financial statements of foreign entities	–	(3,539)	–	–	–	–	(3,539)	(20)	(3,559)
– reclassification adjustments for amounts transferred to profit or loss on disposal of subsidiaries	–	(18)	–	–	–	–	(18)	–	(18)
Cash flow hedges:									
– effective portion of changes in fair value, net of deferred tax	–	–	–	448	–	–	448	–	448
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	(403)	–	–	(403)	–	(403)
Available-for-sale securities:									
– changes in fair value	–	–	49	–	–	–	49	–	49
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	(2)	–	–	–	(2)	–	(2)
– reclassification adjustments for amounts transferred to profit or loss on impairment	–	–	21	–	–	–	21	–	21
Share of other comprehensive income of associates and joint ventures	–	(1,400)	257	54	–	3	(1,086)	–	(1,086)
Other comprehensive income for the year	–	(4,957)	325	99	–	3	(4,530)	(20)	(4,550)

## Notes to the financial statements

for the year ended 31 December 2016

### 14 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:

	<b>2016</b> <b>million</b>	2015 million
Number of issued ordinary shares at 1 January	<b>3,306</b>	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	<b>331</b>	330
Weighted average number of ordinary shares for the year (2015: as adjusted)	<b>3,637</b>	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.

#### (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. A reconciliation of profit is as follows:

	<b>2016</b> <b>HK\$ million</b>	2015 HK\$ million
Profit attributable to equity shareholders of the Company	<b>21,916</b>	21,326
Changes in fair value of investment properties and investment properties under development during the year (note 16(a))	<b>(7,013)</b>	(7,310)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the year (note 11(c))	<b>445</b>	11
Share of changes in fair value of investment properties (net of deferred tax) during the year:		
– associates	<b>(867)</b>	(864)
– joint ventures	<b>(2,436)</b>	(2,814)
Cumulative fair value change of investment properties disposed of during the year, net of tax (note):		
– subsidiaries	<b>2,257</b>	774
– associates and joint ventures	–	76
Effect of share of non-controlling interests	<b>(133)</b>	(190)
Underlying Profit	<b>14,169</b>	11,009
Underlying earnings per share	<b>HK\$3.90</b>	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.



## Notes to the financial statements

for the year ended 31 December 2016

### 15 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.

## Notes to the financial statements

for the year ended 31 December 2016

### 15 Segment reporting (continued)

#### (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:

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures		Consolidated		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
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
<b>For the year ended 31 December 2016</b>										
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 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

## Notes to the financial statements

for the year ended 31 December 2016

### 15 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
<b>For the year ended 31 December 2016</b>							
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
	<b>70</b>	<b>1,463</b>	<b>73</b>	<b>(436)</b>	<b>1,170</b>	<b>2,721</b>	<b>3,891</b>
Share of profits less losses of joint ventures (note (vi))	171	3,584	130	4	3,889	–	3,889
	<b>241</b>	<b>5,047</b>	<b>203</b>	<b>(432)</b>	<b>5,059</b>	<b>2,721</b>	<b>7,780</b>

## Notes to the financial statements

for the year ended 31 December 2016

### 15 Segment reporting (continued)

#### (a) Results of reportable segments (continued)

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures		Combined revenue HK\$ million	Consolidated segment results HK\$ million	Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue (note (i)) HK\$ million	Segment results HK\$ million	Share of revenue HK\$ million	Share of segment results HK\$ million			Revenue HK\$ million	Segment results HK\$ million	Combined revenue HK\$ million	Consolidated segment results HK\$ million
For the year ended 31 December 2015										
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

## Notes to the financial statements

for the year ended 31 December 2016

### 15 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

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 7). 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).

## Notes to the financial statements

for the year ended 31 December 2016

### 15 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 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 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 5)	(note 5)		

#### (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 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 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

## Notes to the financial statements

for the year ended 31 December 2016

### 16 Investment properties and other property, plant and equipment

#### (a) Reconciliation of carrying amount

	Investment properties HK\$ million	Investment under development HK\$ million	Subtotal HK\$ million	Hotel properties HK\$ million	Other land and buildings HK\$ million	Interests in leasehold land held for own use under finance leases HK\$ million	Others HK\$ million	Subtotal HK\$ million	Total HK\$ million
<b>Cost or valuation:</b>									
At 1 January 2015	112,856	4,980	117,836	836	298	984	1,322	3,440	121,276
Exchange adjustments	(1,926)	-	(1,926)	-	(5)	-	(16)	(21)	(1,947)
Additions									
- through acquisition of a subsidiary (note 34(a))	2	-	2	-	-	-	-	-	2
- others	381	352	733	2	-	-	77	79	812
Disposals									
	(797)	-	(797)	-	-	-	(69)	(69)	(866)
Written off									
- in relation to the Joint Venture Company (as defined in note 7(iii))	-	-	-	-	-	-	(8)	(8)	(8)
- others	-	-	-	-	-	-	(28)	(28)	(28)
Surplus on revaluation	6,847	463	7,310	-	-	-	-	-	7,310
Transfer to investment properties	54	-	54	-	(67)	-	-	(67)	(13)
Transfer from/(to) inventories, net	387	4,998	5,385	-	(26)	-	-	(26)	5,359
At 31 December 2015	117,804	10,793	128,597	838	200	984	1,278	3,300	131,897
<b>Representing:</b>									
Cost	-	-	-	838	200	984	1,278	3,300	3,300
Valuation	117,804	10,793	128,597	-	-	-	-	-	128,597
	117,804	10,793	128,597	838	200	984	1,278	3,300	131,897
<b>Accumulated depreciation and impairment losses:</b>									
At 1 January 2015	-	-	-	285	41	181	1,064	1,571	1,571
Exchange adjustments	-	-	-	-	-	-	(13)	(13)	(13)
Charge for the year (note 8(d))	-	-	-	21	4	20	84	129	129
Written back on disposals	-	-	-	-	-	-	(62)	(62)	(62)
Impairment loss for the year (note 7)	-	-	-	-	10	-	-	10	10
Transfer to investment properties	-	-	-	-	(13)	-	-	(13)	(13)
Written off									
- in relation to the Joint Venture Company (as defined in note 7(iii))	-	-	-	-	-	-	(7)	(7)	(7)
- others	-	-	-	-	-	-	(7)	(7)	(7)
At 31 December 2015	-	-	-	306	42	201	1,059	1,608	1,608
<b>Net book value:</b>									
At 31 December 2015	117,804	10,793	128,597	532	158	783	219	1,692	130,289

## Notes to the financial statements

for the year ended 31 December 2016

### 16 Investment properties and other property, plant and equipment (continued)

#### (a) Reconciliation of carrying amount (continued)

	Investment properties under development	Investment properties under development	Subtotal	Hotel properties	Other land and buildings	Interests in leasehold land held for own use under finance leases	Others	Subtotal	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
<b>Cost or valuation:</b>									
At 1 January 2016	117,804	10,793	128,597	838	200	984	1,278	3,300	131,897
Exchange adjustments	(2,009)	(303)	(2,312)	-	(5)	-	(17)	(22)	(2,334)
Additions	2,783	916	3,699	1	-	-	79	80	3,779
Disposals									
– through disposal of subsidiaries (note 34(b))	(2,376)	-	(2,376)	-	-	-	(4)	(4)	(2,380)
– others	(304)	-	(304)	-	-	-	(46)	(46)	(350)
Written off	-	-	-	-	-	-	(3)	(3)	(3)
Surplus on revaluation	4,836	2,177	7,013	-	-	-	-	-	7,013
Transfer to investment properties under development	-	244	244	(189)	-	(213)	-	(402)	(158)
Transfer from inventories	123	386	509	-	7	-	-	7	516
Transfer to asset of the disposal group classified as held for sale (note 32)	(3,220)	-	(3,220)	-	-	-	-	-	(3,220)
At 31 December 2016	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
<b>Representing:</b>									
Cost	-	-	-	650	202	771	1,287	2,910	2,910
Valuation	117,637	14,213	131,850	-	-	-	-	-	131,850
	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
<b>Accumulated depreciation and impairment losses:</b>									
At 1 January 2016	-	-	-	306	42	201	1,059	1,608	1,608
Exchange adjustments	-	-	-	-	-	-	(16)	(16)	(16)
Charge for the year (note 8(d))	-	-	-	16	4	14	72	106	106
Written back on disposals									
– through disposal of subsidiaries (note 34(b))	-	-	-	-	-	-	(4)	(4)	(4)
– others	-	-	-	-	-	-	(42)	(42)	(42)
Transfer to investment properties under development	-	-	-	(106)	-	(52)	-	(158)	(158)
Written off	-	-	-	-	-	-	(3)	(3)	(3)
At 31 December 2016	-	-	-	216	46	163	1,066	1,491	1,491
<b>Net book value:</b>									
At 31 December 2016	117,637	14,213	131,850	434	156	608	221	1,419	133,269



## Notes to the financial statements

for the year ended 31 December 2016

### 16 Investment properties and other property, plant and equipment (continued)

#### (b) The analysis of net book value of properties is as follows:

	2016 HK\$ million	2015 HK\$ million
In Hong Kong		
– under long leases	14,039	9,777
– under medium-term leases	86,733	84,439
	<b>100,772</b>	94,216
Outside Hong Kong		
– under long leases	10	31
– under medium-term leases	32,266	33,395
– under short-term leases	–	2,428
	<b>32,276</b>	35,854
	<b>133,048</b>	130,070

#### (c) Fair value measurement of investment properties and investment properties under development

##### *Fair value hierarchy*

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

## Notes to the financial statements

for the year ended 31 December 2016

### 16 Investment properties and other property, plant and equipment (continued)

#### (c) Fair value measurement of investment properties and investment properties under development (continued)

*Fair value hierarchy (continued)*

	Fair value at 31 December 2016 HK\$ million	Fair value measurements at 31 December 2016 categorised into	
		Level 2 HK\$ million	Level 3 HK\$ million
<b>Recurring fair value measurement</b>			
<i>Investment properties:</i>			
– In Hong Kong	89,986	–	89,986
– In mainland China	27,651	–	27,651
<i>Investment properties under development:</i>			
– In Hong Kong	9,652	–	9,652
– In mainland China	4,561	4,561	–

	Fair value at 31 December 2015 HK\$ million	Fair value measurements at 31 December 2015 categorised into	
		Level 2 HK\$ million	Level 3 HK\$ million
<b>Recurring fair value measurement</b>			
<i>Investment properties:</i>			
– In Hong Kong	86,773	–	86,773
– In mainland China	31,031	–	31,031
<i>Investment properties under development:</i>			
– In Hong Kong	6,033	–	6,033
– In mainland China	4,760	4,760	–

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (other than the investment properties transferred to the disposal group (see note 32)). The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.

## Notes to the financial statements

for the year ended 31 December 2016

### 16 Investment properties and other property, plant and equipment (continued)

#### (c) Fair value measurement of investment properties and investment properties under development (continued)

##### Valuation process

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 Group's management has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation is performed at each interim and annual reporting date and is reviewed and approved by senior management.

##### Valuation methodologies

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.

##### Inputs used in Level 2 fair value measurement

The valuations of investment properties under development in mainland China were determined using direct market comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis based on market data which is publicly available.

##### Inputs used in Level 3 fair value measurement

Below is a table which presents the significant unobservable inputs:

#### Completed investment properties

	Range of capitalisation rates		Range of occupancy rates	
	2016 %	2015 %	2016 %	2015 %
In Hong Kong				
– Retail	2.75%-5.5%	2.75%-5.5%	38%-100%	22%-100%
– Office/industrial	3.0%-4.0%	3.5%-4.0%	84%-99%	82%-97%
– Residential	2.25%-2.75%	2.25%-2.75%	92%-100%	71%-92%
In mainland China				
– Retail	5.5%-8.0%	5.5%-8.0%	33%-100%	18%-100%
– Office	6.5%-7.5%	6.5%-7.5%	90%-98%	96%-100%

The fair value measurement of completed investment properties is positively correlated to the occupancy rate and negatively correlated to the capitalisation rate.

## Notes to the financial statements

for the year ended 31 December 2016

### 16 Investment properties and other property, plant and equipment (continued)

#### (c) Fair value measurement of investment properties and investment properties under development (continued) Investment properties under development

	Estimated project development cost	
	2016 HK\$ million	2015 HK\$ million
In Hong Kong	50 – 1,178	58 – 1,178

The fair value measurement of investment properties under development is negatively correlated to the estimated cost to completion, being determined as the estimated project development cost less the actual amount of project development cost incurred up to the end of the reporting period.

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

### 17 Interest in subsidiaries

Details of the principal subsidiaries at 31 December 2016 which materially affected the results, assets or liabilities of the Group are set out on pages 229 to 235.

### 18 Interest in associates

	2016 HK\$ million	2015 HK\$ million
<b>Unlisted</b>		
Share of net assets	2,184	2,090
Amounts due from associates	2,094	1,228
	4,278	3,318
<b>Listed in Hong Kong</b>		
Share of net assets, including goodwill on acquisition	49,658	48,635
	53,936	51,953
<b>Market value of listed shares</b>	77,999	77,730

Except for the amounts due from associates of HK\$5 million (2015: HK\$1 million) and HK\$64 million (2015: HK\$Nil) which are interest-bearing at Hong Kong dollar prime rate less 3% (2015: Hong Kong dollar prime rate less 3%) per annum and Hong Kong dollar prime rate less 3% (2015: Nil) per annum respectively, all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered within one year from the end of the reporting period and are neither past due nor impaired.

## Notes to the financial statements

for the year ended 31 December 2016

### 18 Interest in associates (continued)

All of the associates are accounted for using the equity method in the consolidated financial statements. Details of the principal associates at 31 December 2016 are set out on page 236.

Summarised financial information of the material associate, adjusted for any differences in accounting policies and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	<b>The Hong Kong and China Gas Company Limited (note)</b>	
	<b>2016 HK\$ million</b>	2015 HK\$ million
Gross amounts of the associate's:		
Current assets	<b>21,420</b>	23,633
Non-current assets	<b>95,431</b>	92,038
Current liabilities	<b>(19,500)</b>	(23,181)
Non-current liabilities	<b>(34,363)</b>	(30,288)
Equity	<b>62,988</b>	62,202
Revenue	<b>28,557</b>	29,591
Profit from continuing operations	<b>8,270</b>	8,179
Other comprehensive income	<b>(2,390)</b>	(3,180)
Total comprehensive income	<b>5,880</b>	4,999
Dividend received from the associate	<b>1,738</b>	1,580
Reconciled to the Group's interest in the associate:		
Gross amounts of net assets of the associate	<b>62,988</b>	62,202
Carrying amount of perpetual capital securities	<b>(2,354)</b>	(2,354)
Non-controlling interests	<b>(6,612)</b>	(6,918)
Equity attributable to equity shareholders	<b>54,022</b>	52,930
Group's interest	<b>41.52%</b>	41.52%
Group's share of the associate's equity attributable to equity shareholders	<b>22,430</b>	21,977
Goodwill	<b>17,517</b>	17,517
Carrying amount in the consolidated financial statements	<b>39,947</b>	39,494
Market value of the listed shares	<b>72,554</b>	72,966

Note: The principal activities of The Hong Kong and China Gas Company Limited are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses. Its distinctive business nature forms a supplement to the Group's core business of property development and property investment to smooth out the cyclicity of the Group's property development business.

## Notes to the financial statements

for the year ended 31 December 2016

### 18 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2016 HK\$ million	2015 HK\$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	13,989	12,459
Aggregate amounts of the Group's share of those associates:		
Profit from continuing operations	843	1,216
Other comprehensive income	(28)	(75)
Total comprehensive income	815	1,141

### 19 Interest in joint ventures

	2016 HK\$ million	2015 HK\$ million
Share of net assets	30,489	27,748
Amounts due from joint ventures	8,239	7,871
	38,728	35,619

The amounts due from joint ventures are unsecured, interest-free, have no fixed terms of repayment and are not expected to be recovered within one year from the end of the reporting period except for the amounts of HK\$17 million (2015: HK\$2 million) and HK\$358 million (2015: HK\$204 million) which are interest-bearing at Hong Kong dollar prime rate (2015: Hong Kong dollar prime rate) per annum and Hong Kong Interbank Offered Rate plus 0.5% (2015: Hong Kong Interbank Offered Rate plus 0.5%) per annum respectively, and HK\$650 million (2015: HK\$Nil) which is secured, interest-bearing at Hong Kong Interbank Offered Rate plus 1.4% (2015: Nil) per annum and is wholly repayable on 18 November 2021. The balances are neither past due nor impaired.

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. Details of the principal joint ventures at 31 December 2016 are set out on page 237.

## Notes to the financial statements

for the year ended 31 December 2016

### 19 Interest in joint ventures (continued)

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

	<b>Central Waterfront Property Investment Holdings Limited (note)</b>	
	<b>2016 HK\$ million</b>	2015 HK\$ million
Gross amounts of the joint venture's:		
Current assets	<b>803</b>	877
Non-current assets	<b>95,719</b>	88,201
Current liabilities	<b>(2,020)</b>	(2,005)
Non-current liabilities	<b>(18,276)</b>	(18,280)
Equity	<b>76,226</b>	68,793
Included in the above assets and liabilities:		
Cash and cash equivalents	<b>351</b>	361
Non-current financial liabilities (excluding trade and other payables and provisions)	<b>(17,363)</b>	(17,409)
Revenue	<b>5,936</b>	5,863
Increase in fair value of investment properties	<b>7,523</b>	7,394
Profit from continuing operations	<b>10,837</b>	10,667
Other comprehensive income	<b>46</b>	(34)
Total comprehensive income	<b>10,883</b>	10,633
Dividend received from the joint venture	<b>1,180</b>	1,156
Included in the above profit:		
Depreciation and amortisation	<b>(74)</b>	(91)
Interest income	<b>1</b>	–
Interest expense	<b>(396)</b>	(391)
Income tax expense	<b>(651)</b>	(656)
Reconciled to the Group's interest in the joint venture:		
Gross amounts of net assets of the joint venture	<b>76,226</b>	68,793
Group's interest	<b>34.21%</b>	34.21%
Group's share of net assets of the joint venture and its carrying amount in the consolidated financial statements	<b>26,077</b>	23,534

Note: Central Waterfront Property Investment Holdings Limited was incorporated in the British Virgin Islands by the Group and its joint venture partners and operates in Hong Kong. Its subsidiaries are mainly engaged in property investment and hotel operation in the International Finance Centre complex in Hong Kong.

## Notes to the financial statements

for the year ended 31 December 2016

### 19 Interest in joint ventures (continued)

Aggregate information of joint ventures that are not individually material:

	2016 HK\$ million	2015 HK\$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	12,651	12,085
Aggregate amounts of the Group's share of those joint ventures:		
Profit from continuing operations	181	403
Other comprehensive income	(249)	(323)
Total comprehensive income	(68)	80

### 20 Derivative financial instruments

	2016		2015	
	Assets HK\$ million	Liabilities HK\$ million	Assets HK\$ million	Liabilities HK\$ million
<b>Cash flow hedges:</b>				
Cross currency interest rate swap contracts (note 4(f)(i))	201	898	216	928
Interest rate swap contracts (note 4(f)(i))	–	326	–	848
Total cash flow hedges	201	1,224	216	1,776
<b>Fair value through profit or loss:</b>				
Other derivatives (note 4(f)(i))	164	–	84	–
	365	1,224	300	1,776
<b>Representing:</b>				
Non-current portion	358	906	300	1,773
Current portion (notes 24 and 27)	7	318	–	3
	365	1,224	300	1,776



## Notes to the financial statements

for the year ended 31 December 2016

### 20 Derivative financial instruments (continued)

#### (a) Derivatives under cash flow hedges

Swap contracts which have been entered into with certain counterparty banks comprise:

- cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes (see note 29) denominated in United States dollars, Pound Sterling and Singapore dollars with aggregate principal amounts of US\$672 million, £50 million and S\$200 million at 31 December 2016 (2015: US\$672 million, £50 million and S\$200 million) and bank loans denominated in Japanese Yen with an aggregate principal amount of ¥10,000 million at 31 December 2016 (2015: ¥10,000 million); and
- interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars with an aggregate principal amount of HK\$11,450 million at 31 December 2016 (2015: HK\$11,700 million).

These cross currency interest rate swap contracts and interest rate swap contracts were designated as cash flow hedges of the interest rate risk and foreign currency risk in relation to the guaranteed notes and bank loans. They will mature between 28 February 2017 and 20 October 2026 (2015: between 13 June 2016 and 20 October 2026).

#### (b) Other derivatives

The carrying value of other derivatives at 31 December 2016 and 2015 represents the fair value of the bonus warrants of Miramar Hotel and Investment Company, Limited (a listed associate of the Group) which remained unexercised at 31 December 2016 and 2015.

## Notes to the financial statements

for the year ended 31 December 2016

### 21 Other financial assets

	2016 HK\$ million	2015 HK\$ million
<b>Available-for-sale securities</b>		
Unlisted (note 4(f)(ii))	378	1,123
Listed:		
– in Hong Kong	2,853	2,637
– outside Hong Kong	253	79
	<b>3,484</b>	<b>3,839</b>
<b>Held-to-maturity debt securities (note 4(f)(ii))</b>		
Listed:		
– in Hong Kong	554	522
– outside Hong Kong	529	613
	<b>1,083</b>	<b>1,135</b>
<b>Instalments receivable</b>	<b>6,287</b>	2,306
<b>Loans receivable</b>	–	1,042
	<b>10,854</b>	<b>8,322</b>
<b>Market value of listed available-for-sale securities (note 4(f)(i))</b>	<b>3,106</b>	2,716
<b>Market value of listed held-to-maturity debt securities (note 4(f)(ii))</b>	<b>1,136</b>	1,164
<b>Fair value of individually impaired available-for-sale securities</b>	<b>620</b>	480

(a) **Available-for-sale securities**

At 31 December 2016, certain of the Group's listed available-for-sale securities were individually determined to be impaired on the basis of significant or prolonged decline in their fair value below cost. Impairment loss on available-for-sale securities is recognised in profit or loss in accordance with the accounting policy set out in note 2(n)(i).

Included in the carrying amount of available-for-sale securities at 31 December 2016 was an aggregate amount of HK\$65 million (2015: HK\$91 million) being pledged in favour of certain financial institutions for credit facilities granted to a wholly-owned subsidiary of the Group. Such credit facilities were not utilised by the Group at 31 December 2016 and 31 December 2015.

## Notes to the financial statements

for the year ended 31 December 2016

### 21 Other financial assets (continued)

#### (b) Held-to-maturity debt securities

Held-to-maturity debt securities are listed, issued by corporate entities with sound credit standing and were neither past due nor impaired at 31 December 2016 (2015: carrying amount of HK\$20 million was impaired due to the principal's default in interest payment during the year).

Included in the carrying amount of held-to-maturity debt securities at 31 December 2016 was an aggregate amount of HK\$346 million (2015: HK\$598 million) being pledged in favour of certain financial institutions for credit facilities granted to a wholly-owned subsidiary of the Group. Such credit facilities were not utilised by the Group at 31 December 2016 and 31 December 2015.

#### (c) Instalments receivable

Instalments receivable represents the proceeds receivable from the sale of properties due after one year from the end of the reporting period. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within one year from the end of the reporting period is included in "Trade and other receivables" under current assets (see note 24).

#### (d) Loans receivable

At 31 December 2015, loans receivable included amounts of HK\$684 million and HK\$358 million which were secured, interest-bearing at Hong Kong Interbank Offered Rate plus 4% per annum and Hong Kong Interbank Offered Rate plus 12% per annum, respectively. Part of the amounts of HK\$570 million and HK\$179 million respectively were settled during the year and the remaining balances of HK\$114 million and HK\$179 million at 31 December 2016, which are expected to be recovered within one year from the end of the reporting period, have been classified as "Trade and other receivables" under current assets (see note 24). The balances were neither past due nor impaired.

Furthermore, at 31 December 2015, HK\$236 million which was expected to be recovered within one year from the end of the reporting period was included in "Trade and other receivables" under current assets (see note 24).

### 22 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.

## Notes to the financial statements

for the year ended 31 December 2016

### 23 Inventories

	2016 HK\$ million	2015 HK\$ million
<b>Property development</b>		
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
	<b>75,162</b>	81,474
<b>Other operations</b>		
Trading stocks	80	82
	<b>75,242</b>	81,556

The analysis of carrying value of inventories for property development is as follows:

	2016 HK\$ million	2015 HK\$ million
In Hong Kong		
– under long leases	26,179	24,357
– under medium-term leases	35,628	37,713
	<b>61,807</b>	62,070
In mainland China		
– under long leases	5,098	10,766
– under medium-term leases	8,257	8,638
	<b>13,355</b>	19,404
	<b>75,162</b>	81,474
Including:		
– Properties expected to be completed after more than one year	49,667	51,525

## Notes to the financial statements

for the year ended 31 December 2016

### 24 Trade and other receivables

	2016 HK\$ million	2015 HK\$ million
Instalments receivable (note 21(c))	1,561	2,146
Loans receivable (note 21(d))	293	236
Debtors, prepayments and deposits	8,686	5,781
Gross amount due from customers for contract work (note 25)	22	18
Derivative financial instruments (note 20)	7	–
Amounts due from associates	6	144
Amounts due from joint ventures	76	46
	<b>10,651</b>	<b>8,371</b>

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 from the end of the reporting period.

At 31 December 2016, the loans receivable comprised amounts of HK\$114 million and HK\$179 million which are secured, interest-bearing at Hong Kong Interbank Offered Rate plus 4% per annum 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, and are neither past due nor impaired.

At 31 December 2015, the loans receivable comprised amounts of HK\$200 million and HK\$36 million which were secured, interest-bearing at Hong Kong Interbank Offered Rate plus 5.65% per annum and Hong Kong Interbank Offered Rate plus 4% per annum, respectively. The balances were expected to be recovered within one year from the end of the reporting period and were neither past due nor impaired.

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.

## Notes to the financial statements

for the year ended 31 December 2016

### 24 Trade and other receivables (continued)

#### (a) Ageing analysis

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
	<b>2,538</b>	<b>3,048</b>

Details of the Group's credit policy are set out in note 4(a).

#### (b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(n)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2016 HK\$ million	2015 HK\$ million
At 1 January	83	60
Exchange differences	(2)	(2)
Impairment loss recognised (notes 7 and 15(c))	11	25
Uncollectible amounts written off	(40)	–
At 31 December	<b>52</b>	<b>83</b>

At 31 December 2016, the Group's trade debtors of HK\$52 million (2015: HK\$83 million) were individually determined to be impaired. The individually impaired receivables relate to customers who were in financial difficulties and management assessed that only a portion of these receivables are expected to be recovered. Accordingly, the Group has recognised impairment losses during the year in relation to the amounts which were considered to be irrecoverable.

## Notes to the financial statements

for the year ended 31 December 2016

### 24 Trade and other receivables (continued)

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

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

	2016 HK\$ million	2015 HK\$ million
Neither past due nor impaired	1,796	2,279
Less than 1 month past due	630	609
Over 1 month but less than 3 months past due	44	73
	674	682
	2,470	2,961

Receivables which were neither past due nor impaired relate to customers for whom there was no recent history of default.

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

### 25 Gross amount due from/(to) customers for contract work

	2016 HK\$ million	2015 HK\$ million
<b>Contracts in progress at the end of the reporting period:</b>		
Contract costs incurred plus profits less losses	162	325
Progress billings	(142)	(323)
Net contract work	20	2
<b>Represented by:</b>		
Gross amount due from customers for contract work (note 24)	22	18
Gross amount due to customers for contract work (note 27)	(2)	(16)
	20	2

## Notes to the financial statements

for the year ended 31 December 2016

### 26 Cash and bank balances

	2016 HK\$ million	2015 HK\$ million
Deposits with banks and other financial institutions	11,672	6,771
Cash at bank and in hand	11,294	5,008
Cash and bank balances in the consolidated statement of financial position	22,966	11,779
Less:		
Deposits with banks and other financial institutions over three months of maturity at acquisition	(7,432)	(928)
Cash restricted for use	(2,695)	(2,380)
Cash and cash equivalents	12,839	8,471
Bank overdrafts (note 28)	–	(6)
Cash and cash equivalents in the consolidated cash flow statement	12,839	8,465

At 31 December 2016, cash and bank balances in the consolidated statement of financial position included balances of bank deposits in mainland China which were subject to exchange controls, and of which an amount of HK\$2,695 million (2015: HK\$2,380 million) was restricted for use and primarily comprised the guarantee deposits for the construction of certain property development projects under pre-sales in mainland China.

### 27 Trade and other payables

	2016 HK\$ million	2015 HK\$ million
Creditors and accrued expenses (other than those transferred to the disposal group (see note 32))	7,748	8,484
Gross amount due to customers for contract work (note 25)	2	16
Rental and other deposits (other than those transferred to the disposal group (see note 32))	1,748	1,412
Forward sales deposits received	8,353	8,235
Derivative financial instruments (note 20)	318	3
Amounts due to associates	401	143
Amounts due to joint ventures	2,653	805
	21,223	19,098

- (a) 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 from the end of the reporting period. 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.



## Notes to the financial statements

for the year ended 31 December 2016

### 27 Trade and other payables (continued)

- (b) 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 HK\$ million	2015 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
	<b>5,949</b>	<b>6,588</b>

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

### 28 Bank loans and overdrafts

At 31 December 2016, bank loans and overdrafts were repayable as follows:

	2016 HK\$ million	2015 HK\$ million
Within 1 year and included in current liabilities	14,392	10,216
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	5,641	2,711
– After 2 years but within 5 years	22,445	22,087
	<b>28,086</b>	<b>24,798</b>
	<b>42,478</b>	<b>35,014</b>

At 31 December 2016, the bank loans and overdrafts were unsecured and analysed as follows:

	2016 HK\$ million	2015 HK\$ million
Unsecured bank loans	42,478	35,008
Bank overdrafts (note 26)	–	6
	<b>42,478</b>	<b>35,014</b>

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain ratios in the Group's statement of financial position and minimum net assets requirement, as are commonly found in lending arrangements with financial institutions. Any breach of the covenants by the Group would result in the drawdown facilities to become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 4(b). At 31 December 2016 and 2015, none of the covenants relating to the drawdown facilities had been breached.

## Notes to the financial statements

for the year ended 31 December 2016

### 29 Guaranteed notes

	2016 HK\$ million	2015 HK\$ million
Guaranteed notes due 2017 – 2022	1,732	1,830
Guaranteed notes due 2019	3,870	3,865
Guaranteed notes issued pursuant to the Medium Term Note Programme	8,004	10,202
	<b>13,606</b>	15,897

At 31 December 2016, the guaranteed notes were repayable as follows:

	2016 HK\$ million	2015 HK\$ million
Within 1 year and included in current liabilities	5,760	2,192
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	1,071	5,743
– After 2 years but within 5 years	6,236	6,302
– After 5 years	539	1,660
	<b>7,846</b>	13,705
	<b>13,606</b>	15,897

(a) **Guaranteed notes due 2017 – 2022**

On 25 July 2007, the Company through a wholly-owned subsidiary issued guaranteed loan notes (the “2007 Notes”) with aggregate principal amounts of US\$325 million and £50 million under private placements in the United States of America and in Europe. At 31 December 2016, the 2007 Notes with principal amounts of (i) US\$152 million (2015: US\$152 million) and £50 million (2015: £50 million) bear fixed interest rates ranging from 6.18% to 6.38% per annum payable semi-annually in arrears; and (ii) US\$10 million (2015: US\$10 million) bears floating rate by reference to 3-month London Interbank Offered Rate payable quarterly in arrears. The 2007 Notes are guaranteed by the Company and will mature between 25 July 2017 and 25 July 2022.

(b) **Guaranteed notes due 2019**

On 17 September 2009, the Company through a wholly-owned subsidiary issued guaranteed notes (the “2009 Notes”) with an aggregate principal amount of US\$500 million at an issue price equal to 99.795% of the principal amount of the 2009 Notes. The 2009 Notes bear fixed interest rate at 5.50% per annum payable semi-annually in arrears. The 2009 Notes are guaranteed by the Company and will mature on 17 September 2019.

## Notes to the financial statements

for the year ended 31 December 2016

### 29 Guaranteed notes (continued)

#### (c) Guaranteed notes issued pursuant to the Medium Term Note Programme (the "Programme")

The carrying amounts of the guaranteed notes issued under the Programme and which remained outstanding at 31 December 2016 were as follows:

- (i) On 19 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of S\$200 million. These notes bear fixed coupon rate of 4.00% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 19 September 2018.
- (ii) On 23 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK\$220 million. These notes bear a fixed coupon rate of 4.03% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 23 September 2021.
- (iii) On 26 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK\$656 million. These notes bear a fixed coupon rate of 4.03% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 27 September 2021.
- (iv) On 20 October 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US\$10 million. These notes bear a fixed coupon rate of 5.20% per annum payable annually in arrears, are guaranteed by the Company and will mature on 20 October 2026.
- (v) On 28 October 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK\$250 million. These notes bear a fixed coupon rate of 4.03% per annum payable annually in arrears, are guaranteed by the Company and will mature on 28 October 2021.
- (vi) On 10 November 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK\$309 million. These notes bear a fixed coupon rate of 4.80% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 10 November 2031.
- (vii) On 14 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US\$400 million. These notes bear a fixed coupon rate of 4.75% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 14 February 2017.
- (viii) On 22 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US\$300 million. These notes bear a fixed coupon rate of 4.75% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 14 February 2017.

### 30 Amount due to a fellow subsidiary

At 31 December 2016, all of the amount due to a fellow subsidiary is unsecured, interest-bearing and is not expected to be settled within one year from the end of the reporting period with no fixed terms of repayment.

At 31 December 2015, the amounts due to a fellow subsidiary were unsecured, interest-bearing and were not expected to be settled within one year from the end of the reporting period with no fixed terms of repayment, except for an amount of HK\$8 million which was settled during the year ended 31 December 2016.

## Notes to the financial statements

for the year ended 31 December 2016

### 31 Capital and reserves

#### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out in note 39(b).

#### (b) Nature and purpose of reserves

##### (i) *Property revaluation reserve*

The property revaluation reserve relates to other land and buildings. Where other land and buildings is reclassified to investment properties, the cumulative increase in fair value at the date of reclassification is included in the property revaluation reserve, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

##### (ii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(y).

##### (iii) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies set out in notes 2(g) and 2(n)(i).

##### (iv) *Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of a derivative financial instrument which is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, in accordance with the accounting policy adopted for cash flow hedges in note 2(i).

##### (v) *Other reserves*

Other reserves comprise the statutory reserve set up for enterprises established in mainland China. According to the relevant rules and regulations in The People's Republic of China ("PRC") applicable to wholly foreign-owned enterprises, a wholly foreign-owned enterprise is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprise's registered capital.

## Notes to the financial statements

for the year ended 31 December 2016

### 32 Disposal group

On 8 December 2016, the Group entered into an agreement in relation to the sale by the Group of its entire equity interest in Shellson International Limited and its wholly-owned subsidiary which owns Beijing Henderson Centre (being an investment property in Beijing, mainland China), for a cash consideration of HK\$3,261 million (subject to adjustment). At 31 December 2016, the transaction had yet to be completed.

At 31 December 2016, the major classes of asset and liabilities of the disposal group classified as held for sale are as follows:

	<b>HK\$ million</b>
<b>Asset</b>	
Investment properties (note 16(a))	<b>3,220</b>
	<b>3,220</b>
<b>Liabilities</b>	
Creditors and accrued expenses	<b>16</b>
Rental and other deposits	<b>16</b>
	<b>32</b>
<b>Net assets classified as held for sale</b>	<b>3,188</b>

The cumulative income recognised in other comprehensive income relating to Shellson International Limited and its subsidiary amounted to HK\$24 million for the period from 9 December 2016 to 31 December 2016.

At 31 December 2016, the Group's management determined the fair value of Beijing Henderson Centre which approximates the agreed property value under the sale and purchase agreement ("Agreed Property Value"), and therefore the fair value of Beijing Henderson Centre was categorised as Level 2 (2015: Level 3) in the fair value hierarchy. The transfer from Level 3 to Level 2 fair value hierarchy is due to the determination of the fair value at 31 December 2016 which made reference to the Agreed Property Value, being an observable input for the investment property indirectly.

## Notes to the financial statements

for the year ended 31 December 2016

### 33 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that the Group can continue to provide financial returns to shareholders, and by securing access to financing sources at reasonable costs.

The Group regularly reviews and manages its capital structure under the policy of financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to its capital structure in light of remarkable changes in the financial and capital markets and in economic conditions.

The Group monitors its capital structure on the basis of gearing ratio, which is one of the most commonly adopted measurement standards for capital management by companies engaged in the businesses of property development and property investment. Gearing ratio is calculated based on the net debt (being the aggregate of the Group's bank and other borrowings and the amount due to a fellow subsidiary (collectively, the "Total debt") less cash and bank balances) and shareholders' funds of the Group at the end of the reporting period.

During the year ended 31 December 2016, the Group's strategy, which was unchanged from that for the corresponding year ended 31 December 2015, was to secure long-term funding sources at attractive borrowing costs so as to finance the development of the Group's land bank in Hong Kong and mainland China in the coming years. The Group continued to maintain a low gearing ratio during the year, which has the effect of minimising any unfavourable impact on the Group arising from any unforeseeable adverse changes in the local and/or international financial markets, capital markets and economic conditions.

The Group's gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 HK\$ million	2015 HK\$ million
Bank and other borrowings (including guaranteed notes) 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%

Except for a wholly-owned subsidiary of the Company which is engaged in the provision of finance and is governed by the requirements of the Banking Ordinance, neither the Company nor any of its other subsidiaries was subject to externally imposed capital requirements during the year and at 31 December 2016.

## Notes to the financial statements

for the year ended 31 December 2016

### 34 Acquisition and disposal of subsidiaries

#### (a) Acquisition of subsidiaries

The Group acquired certain subsidiaries during the year ended 31 December 2015. The fair value of the assets acquired and the liabilities assumed for the Group's acquisition of subsidiaries were as follows:

	2015 HK\$ million
Investment properties (note 16(a))	2
Inventories	72
Net assets and total consideration	74
<b>Representing:</b>	
Cash consideration paid	74
<b>Net cash outflow in respect of the acquisition:</b>	
Cash consideration paid	(74)

#### (b) Disposal of subsidiaries

The Group disposed of certain subsidiaries during the year ended 31 December 2016. The disposals which were completed during the year ended 31 December 2016 had the following effect on the Group's assets and liabilities:

	2016 HK\$ million	2015 HK\$ million
Investment properties and other property, plant and equipment (note 16(a))	2,376	–
Inventories	851	54
Trade and other receivables	4	–
Cash and cash equivalents	154	–
Creditors and accrued expenses	(23)	–
Deferred tax liabilities (note 11(c))	(30)	–
Net assets	3,332	54
Initial recognition of interest in joint ventures	(463)	–
Release of exchange reserves (note 13(b))	(18)	–
Professional charges	66	–
Net gain on disposal (note 7)	1,959	52
Total consideration	4,876	106
<b>Net cash inflow in respect of the disposals:</b>		
Total consideration	4,876	106
Consideration to be received	(421)	–
Cash and cash equivalents disposed of	(154)	–
	4,301	106

## Notes to the financial statements

for the year ended 31 December 2016

### 35 Capital commitments

At 31 December 2016, the Group had capital commitments not provided for in these financial statements as follows:

	2016 HK\$ million	2015 HK\$ million
<b>(a)</b> Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	<b>6,806</b>	6,060
Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	<b>20,687</b>	21,113
	<b>27,493</b>	27,173
<b>(b) In relation to the capital commitments undertaken by joint ventures and certain associates attributable to the Group:</b>		
Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	<b>1,575</b>	1,178
Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	<b>547</b>	1,043
	<b>2,122</b>	2,221

### 36 Significant leasing arrangements

At 31 December 2016, the Group was both a lessor and a lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

#### (a) Lessor

The Group leases out a number of land/building facilities under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are re-negotiated. Further details of the carrying value of the properties are contained in note 16.

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

	2016 HK\$ million	2015 HK\$ million
Within 1 year	<b>4,592</b>	4,619
After 1 year but within 5 years	<b>5,090</b>	5,084
After 5 years	<b>291</b>	444
	<b>9,973</b>	10,147



## Notes to the financial statements

for the year ended 31 December 2016

### 36 Significant leasing arrangements (continued)

#### (b) Lessee

The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are re-negotiated.

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK\$ million	2015 HK\$ million
Within 1 year	168	240
After 1 year but within 5 years	61	160
	229	400

### 37 Contingent liabilities

At 31 December 2016, contingent liabilities of the Group were as follows:

- (a) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and re-classification of the properties before or upon the Completion. At 31 December 2016, the Group had contingent liabilities in this connection of HK\$13 million (2015: HK\$13 million).
- (b) At 31 December 2016, the Company had contingent liabilities in respect of performance bonds and guarantees for the due and proper performance of the obligations undertaken by the Group's subsidiaries and projects amounting to HK\$40 million (2015: HK\$38 million).
- (c) At 31 December 2016, the Group had given guarantees to financial institutions in the aggregate amount of HK\$2,077 million (2015: HK\$1,324 million) 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. Such guarantees will be released upon the issuance of the Building Ownership Certificate.

## Notes to the financial statements

for the year ended 31 December 2016

### 38 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year:

#### (a) Transactions with fellow subsidiaries

Details of material related party transactions during the year between the Group and its fellow subsidiaries are as follows:

	2016 HK\$ million	2015 HK\$ million
Other interest expense (note (i))	12 <sup>#</sup>	77 <sup>#</sup>
Sales commission income (note (iii))	8	11
Administration fee income (note (ii))	9	9

#### (b) Transactions with associates and joint ventures

Details of material related party transactions during the year between the Group and its associates and joint ventures are as follows:

	2016 HK\$ million	2015 HK\$ million
Rental income (note (iii))	24	21
Rental expenses (note (iii))	133	133
Venue-related expenses (note (iii))	49	55
Management fee income (note (iii))	4	11
Security guard service fee income (note (iii))	26	25
Other interest income (note (i))	4	6
Property management service fee income (note (iii))	8	7
Rental commission income (note (iii))	7	4
Sales commission income (note (iii))	3	–
Loan commitment fee income (note (iii))	7	–

#### (c) Transactions with related companies

Details of material related party transactions during the year between the Group and its related companies which are controlled by private family trusts of a director of the Company are as follows:

	2016 HK\$ million	2015 HK\$ million
Income from sale of construction materials (note (iii))	6	8
Rental income (note (iii))	19	19
Tax indemnity receipt	3	5

## Notes to the financial statements

for the year ended 31 December 2016

### 38 Material related party transactions (continued)

Notes:

- (i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate, Hong Kong dollar prime rate or Renminbi benchmark loan rates announced by the People's Bank of China.
- (ii) These transactions represent cost reimbursements or cost reimbursements plus certain percentage thereon as service fees.
- (iii) In the opinion of the directors, these transactions were carried out on normal commercial terms and in the ordinary course of business.
- (iv) The amount due to a fellow subsidiary at 31 December 2016 and 2015 is referred to in the Group's consolidated statement of financial position at 31 December 2016 and 2015, and the terms of which are set out in note 30. The amounts due from/to associates and joint ventures at 31 December 2016 and 2015 are set out in notes 18, 19, 24 and 27.

#### (d) Transactions with Sunlight REIT

Details of the material related party transactions during the year between the Group and Sunlight REIT (which is deemed as a connected person of the Company under the Listing Rules as from 30 April 2009) are as follows:

	2016 HK\$ million	2015 HK\$ million
Property and leasing management service fee income and other ancillary property service fee income	49 <sup>#</sup>	49 <sup>#</sup>
Asset management service fee income	85 <sup>#</sup>	88 <sup>#</sup>
Rental expenses	11	10
Security service fee income	3 <sup>#</sup>	2 <sup>#</sup>

The above transactions were conducted in accordance with the terms of the respective agreements/deeds entered into between the Group and Sunlight REIT. At 31 December 2016, the amount due from Sunlight REIT was HK\$30 million (2015: HK\$26 million) and is unsecured, interest-free and has no fixed terms of repayment. The amount is included in "Trade and other receivables" under current assets (note 24).

#### (e) Transactions with a company owned by a director of the Company

Dr Lee Ka Kit, a director of the Company, through a company owned by him (the "entity") has separate interest in an associate of the Group and through which the Group holds its interest in a development project in mainland China. The entity agreed to provide and had provided finance in the form of non interest-bearing advances to such associate in accordance with the percentage of its equity interest in such associate.

At 31 December 2016, the advance by the entity to the abovementioned associate amounted to HK\$80 million<sup>#</sup> (2015: HK\$80 million<sup>#</sup>). Such amount is unsecured and has no fixed terms of repayment.

#### (f) Key management personnel

Remuneration for key management personnel are disclosed in note 9.

<sup>#</sup> These related party transactions also constitute connected transactions and/or continuing connected transactions under Listing Rules, details of which are set out in the paragraph headed "Interests in transactions, arrangements or contracts and connected transactions/continuing connected transactions" in the Report of the directors set out in the Company's annual reports for the years ended 31 December 2016 and 2015.

## Notes to the financial statements

for the year ended 31 December 2016

### 39 Statement of financial position and changes in equity of the Company

#### (a) Statement of financial position

	Note	At 31 December 2016 HK\$ million	At 31 December 2015 HK\$ million
<b>Non-current assets</b>			
Interest in subsidiaries	17	160,429	152,763
Interest in associates		94	94
Interest in joint ventures		135	71
		<b>160,658</b>	152,928
<b>Current assets</b>			
Trade and other receivables		65	67
Cash and bank balances		2	1
		<b>67</b>	68
<b>Current liability</b>			
Trade and other payables		18	20
		<b>18</b>	20
<b>Net current assets</b>			
		<b>49</b>	48
<b>Total assets less current liability</b>			
		<b>160,707</b>	152,976
<b>Non-current liabilities</b>			
Amounts due to subsidiaries		35,770	27,459
Amounts due to associates		–	9
Amounts due to joint ventures		146	138
		<b>35,916</b>	27,606
<b>NET ASSETS</b>			
		<b>124,791</b>	125,370
<b>CAPITAL AND RESERVE</b>			
Share capital	39(b)	52,345	52,345
Retained profits	39(c)	72,446	73,025
<b>TOTAL EQUITY</b>			
		<b>124,791</b>	125,370

Approved and authorised for issue by the Board of Directors on 21 March 2017.

**Lee Shau Kee**  
**Lee Tat Man**  
*Directors*

## Notes to the financial statements

for the year ended 31 December 2016

### 39 Statement of financial position and changes in equity of the Company (continued)

#### (b) Movement in equity

	Note	Share capital HK\$ million	Retained profits HK\$ million	Total HK\$ million
<b>Balance at 1 January 2015</b>		52,010	71,077	123,087
<b>Changes in equity for 2015:</b>				
Profit and total comprehensive income for the year		–	5,484	5,484
Share issued in respect of scrip dividends	39(c)	335	–	335
Bonus shares issued	39(c)	–	–	–
Dividend approved in respect of the previous financial year	12(b)	–	(2,280)	(2,280)
Dividend declared and paid in respect of the current year	12(a)	–	(1,256)	(1,256)
<b>Balances at 31 December 2015 and 1 January 2016</b>		<b>52,345</b>	<b>73,025</b>	<b>125,370</b>
<b>Changes in equity for 2016:</b>				
Profit and total comprehensive income for the year		–	4,487	4,487
Bonus shares issued	39(c)	–	–	–
Dividend approved in respect of the previous financial year	12(b)	–	(3,538)	(3,538)
Dividend declared and paid in respect of the current year	12(a)	–	(1,528)	(1,528)
<b>Balance at 31 December 2016</b>		<b>52,345</b>	<b>72,446</b>	<b>124,791</b>

## Notes to the financial statements

for the year ended 31 December 2016

### 39 Statement of financial position and changes in equity of the Company (continued)

#### (c) Share capital

	The Group and the Company			
	Number of shares		Amount	
	2016 million	2015 million	2016 HK\$ million	2015 HK\$ million
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January	3,306	3,000	52,345	52,010
Shares issued in respect of scrip dividends (note (i))	–	6	–	335
Issue of bonus shares (note (ii))	331	300	–	–
At 31 December	3,637	3,306	52,345	52,345

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the shares of the Company do not have a par value.

#### (i) Shares issued in respect of scrip dividends

On 9 July 2015, the Company issued and allotted 4,801,477 shares at an issue price of HK\$54.41 per share in respect of the final dividend for the year ended 31 December 2014 under the scrip dividend scheme. Except for the entitlement to the said final dividend, the 4,801,477 shares so issued rank pari passu in all respects with the then existing shares.

On 8 October 2015, the Company issued and allotted 1,557,870 shares at an issue price of HK\$47.58 per share in respect of the interim dividend for the six months ended 30 June 2015 under the scrip dividend scheme. Except for the entitlement to the said interim dividend, the 1,557,870 shares so issued rank pari passu in all respects with the then existing shares.

As a result and in accordance with section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), during the year ended 31 December 2015, the Company's share capital increased by approximately HK\$335 million.

#### (ii) Issue of bonus shares

On 23 June 2016, an aggregate of 330,673,246 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 13 June 2016.

On 9 July 2015, an aggregate of 300,033,920 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 10 June 2015.

There is no change to the Company's share capital as the Company's shares no longer have a par or nominal value in accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622).

## Notes to the financial statements

for the year ended 31 December 2016

### 39 Statement of financial position and changes in equity of the Company (continued)

#### (d) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622), was HK\$72,446 million (2015: HK\$73,025 million). As stated in note 12(a), after the end of the reporting period, the directors proposed a final dividend of HK\$1.13 (2015: HK\$1.07) per ordinary share, amounting to HK\$4,110 million (2015: HK\$3,538 million). This dividend has not been recognised as a liability at the end of the reporting period.

### 40 Non-adjusting events after the reporting period

- (a) After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 12.
- (b) On 8 February 2017, the transaction contemplated under the disposal by the Group of its entire equity interest in Shellson International Limited and its wholly-owned subsidiary (see note 32) was completed. A net gain on disposal of subsidiaries attributable to the Group's reported profit and underlying profit, in the amounts of HK\$540 million and HK\$1,120 million respectively (both subject to adjustments), will be recognised in the Group's consolidated financial statements for the year ending 31 December 2017.
- (c) On 1 February 2017, the Group entered into a conditional provisional 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, Landrise Development Limited (a wholly-owned subsidiary) which owns the property occupied by Newton Place Hotel, Kwun Tong. The consideration for the disposal amounted to HK\$2,248 million (subject to adjustment).

On 17 February 2017, the Group entered into a conditional sale and purchase agreement with a deemed connected party pursuant to which the Group sold its entire issued share capital of Enhance Invest Inc. and the loan owing by Conradion Limited (both wholly-owned subsidiaries) together with the entire interest in Conradion Limited which owns the property occupied by Newton Inn, North Point. The consideration for the disposal amounted to HK\$1,000 million (subject to adjustment).

Both the abovementioned disposals are scheduled for completion in the year ending 31 December 2017, and subject to the fulfilment of all the respective conditions precedent to the completion of the abovementioned disposals, an aggregate gain on disposal of subsidiaries attributable to the Group's reported profit and underlying profit in the amount of HK\$2,193 million (subject to adjustment) will be recognised in the Group's consolidated financial statements for the year ending 31 December 2017.

### 41 Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.

### 42 Immediate parent and ultimate controlling party

At 31 December 2016, the directors consider that the immediate parent and ultimate controlling party of the Group to be Henderson Development Limited, which is incorporated in Hong Kong. Henderson Development Limited does not produce financial statements available for public use.

# Principal Subsidiaries

at 31 December 2016

Details of the principal subsidiaries are as follows:

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
<b>(a) Property development</b>				
<b>(i) Incorporated and operates in Hong Kong</b>				
Asia Cheer International Limited		1	–	100
Borten Limited	(i)	1	–	100
Capital Matrix Limited		1	–	100
Carley Limited		2	–	100
City Castle Limited		1	–	100
Dynamic Hero Limited	(i)	1	–	100
Dynamic Talent Limited		1	–	100
Fairtex Development Limited		1	–	100
Gainbo Limited	(i)	2	–	100
Gentway Limited	(i)	1	–	100
Global Crystal Limited	(i)	1	–	100
Golden Sharp Limited		1	–	100
Harven Limited		10,000	–	100
Harvest Development Limited		840	–	82.86
Hung Shun Investment Company Limited	(i)	3,940,200	–	100
Joinbo Enterprises Limited	(i)	1	–	100
Landrich Development Limited	(i)	1,000	–	100
Nation Sheen Limited	(i)	2	–	100
Onfine Development Limited	(i)	2	–	100
Perfect Success Development Limited		2	–	100
Rich Silver Development Limited		2	–	100
Rise Cheer Investment Limited	(i)	1	–	100
Sky Rainbow Development Limited		10,000	–	100
Sunny Perfect Limited		1,000	–	100
Super Fortune Investment Limited	(i)	1	–	100
Supreme Hero Limited	(i)	1	–	100
Sure Partner Limited		1	–	100
Treasure Palace Limited		1	–	100
Triple Glory Limited	(i)	1	–	100
Union Citizen Limited	(i)	1	–	100
Victory Well Development Limited		2	–	100
Winjoy Development Limited	(i)	2	100	–



## Principal Subsidiaries

at 31 December 2016

	Issued/ contributed registered capital	% of equity interest held by The Company	interest held by Subsidiaries	% of profit sharing by subsidiaries
(a) Property development (continued)				
(ii) Established and operates in mainland China				
<i>Sino-Foreign Co-operative Joint Venture Enterprises</i>				
Beijing Gaoyi Property Development Co., Ltd.	US\$81,000,000	–	100	100
Beijing Henderson Properties Co., Ltd.	RMB655,000,000	–	100	100

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(b) Property investment				
<b>Incorporated and operates in Hong Kong</b>				
Bloomark Investment Limited	(i)	2	–	100
Carry Express Investment Limited	(i)	100,000	–	100
Deland Investment Limited	(i)	200	–	100
Easewin Development Limited	(i)	2	–	100
Evercot Enterprise Company, Limited	(i)			
– A Shares		14,990,000	100	–
– B Shares		200	–	–
Intelligent House Limited	(i)	2	–	100
Join Fortune Development Limited	(i)			
– A Shares		100	100	–
– B Shares		2	–	–
Millap Limited	(i)	2	100	–
Shung King Development Company Limited	(i)			
– Ordinary A Shares		2	100	–
– Non-voting Deferred A Shares		2,000,000	100	–
– B Shares		2	–	–
Union Fortune Development Limited	(i)	10,000	–	100

## Principal Subsidiaries

at 31 December 2016

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
<b>(c) Finance</b>				
<b>(i) Incorporated and operates in Hong Kong</b>				
Ever Supreme Development Limited		1	–	100
Henderson (China) Finance Limited	(i)	10,000	–	100
Henderson International Finance Limited		25,000,000	100	–
Henderson Land Credit (2010) Limited	(i)	1	–	100
Henderson Land Credit (2014) Limited	(i)	1	–	100
Henderson Land Credit (2015) Limited	(i)	1	–	100
Henderson Land Finance (2011) Limited	(i)	1	–	100
Henland Finance Limited	(i)	1,000,000	–	100
Post East Finance Company Limited		2	–	100
Rich Chase Development Limited	(i)	2	–	100
Success Crown Development Limited		2	–	100
<b>(ii) Incorporated and operates in the British Virgin Islands</b>				
Hansom Technology Limited	(i)	US\$1	–	100
Henderson Land Finance Limited		US\$1	100	–
Henderson Land MTN Limited	(i)	US\$1	–	100
Henland Finance (2012) Limited		US\$1	–	100
Henson Finance Limited	(i)	US\$1	–	100
Midlink Limited	(i)	US\$1	–	100
St. Helena Holdings Co. Limited		US\$3	–	100
<b>(iii) Incorporated in Singapore and operates in Hong Kong</b>				
Henderson Land MTN (S) Pte. Limited	(i)	US\$1	–	100

## Principal Subsidiaries

at 31 December 2016

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
<b>(d) Construction</b>				
<b>Incorporated and operates in Hong Kong</b>				
E Man Construction Company Limited		35,000,000	100	–
Ginca Construction Machinery Limited		1	–	100
Granbo Construction Company Limited		1	–	100
Heng Lai Construction Company Limited		2	–	100
Heng Shung Construction Company Limited		2	–	100
Heng Tat Construction Company Limited		200	–	100
Hong Kong Concrete Precasting Product Company Limited		2	–	100

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
<b>(e) Property management</b>				
<b>Incorporated and operates in Hong Kong</b>				
Beverly Hill (Estate Management) Limited		2	–	100
Flora Plaza Management Limited		10	–	60
Goodwill Management Limited		2	–	100
Hang On Estate Management Limited		2	–	100
Hang Yick Properties Management Limited		10,000,000	100	–
Henderson Sunlight Asset Management Limited	(i)	38,800,000	–	100
Henderson Sunlight Property Management Limited	(i)	1	–	100
Metro City Management Limited		2	–	100
Metro Harbourview Management Limited		2	–	100
Star Management Limited		2	–	100
Sunshine City Property Management Limited		2	–	100
Well Born Real Estate Management Limited		2	100	–

## Principal Subsidiaries

at 31 December 2016

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
<b>(f) Investment holding</b>				
<b>(i) Incorporated and operates in Hong Kong</b>				
Banshing Investment Limited		2	–	100
Channel Best Limited	(i)	1	–	100
China Investment Group Limited		300,000,000	–	100
Citiright Development Limited		2	100	–
Covite Investment Limited		2	–	100
Darnman Investment Limited		2	–	100
Disralei Investment Limited				
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		1,000	–	100
Fondoll Investment Limited		200	100	–
Gainwise Investment Limited		2	–	100
Graf Investment Limited	(i)			
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		200	–	100
Henderson China Properties Limited	(i)	3,000,000,000	–	100
Henderson Investment Limited		612,926,901	–	69.27
Macrostar Investment Limited				
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		2	–	100
Main Champion Development Limited	(i)	2	100	–
Markshing Investment Limited		2	–	100
Medley Investment Limited				
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		200	–	100
Mightymark Investment Limited		2	100	–
Mount Sherpa Limited	(i)			
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		20	–	100
Paillard Investment Limited	(i)			
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		200	–	100
Tactwin Development Limited	(i)	1,000	100	–
Wellfine Development Limited		55	100	–
Wiselin Investment Limited	(i)	2	–	100

## Principal Subsidiaries

at 31 December 2016

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
<b>(f) Investment holding (continued)</b>				
<b>(ii) Incorporated in Hong Kong and operates in mainland China</b>				
Hang Seng Quarry Company Limited	(i)	10,000	64	–
<b>(iii) Incorporated and operates in the British Virgin Islands</b>				
Cobase Limited		US\$1	–	100
Comax Investment Limited		US\$1	–	100
Higgins Holdings Limited		US\$1	–	100
Multiglade Holdings Limited	(i)	US\$1	–	100
Richful Resources Limited		US\$1	–	100
Starland International Limited	(i)	US\$1	100	–
Sunnice Investment Limited		US\$1	–	100
Threadwell Limited	(i)	US\$1	–	100
<b>(g) Department store operation and management</b>				
<b>Incorporated and operates in Hong Kong</b>				
Citistore (Hong Kong) Limited		1	–	100

## Principal Subsidiaries

at 31 December 2016

	Note	Particulars of issued shares HK\$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
<b>(h) Hotel operation and management</b>				
<b>Incorporated and operates in Hong Kong</b>				
Henderson Hotel Management Limited	(i)			
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		2	–	100
Newton Inn (North Point) Limited	(i)	2	100	–
Newton Place Hotel Limited	(i)	1	–	100
<b>(i) Management and agency services</b>				
<b>Incorporated and operates in Hong Kong</b>				
Henderson Leasing Agency Limited	(i)	1	–	100
Henderson Property Agency Limited		200,000	–	100
Henderson Real Estate Agency Limited	(i)	200	100	–
<b>(j) Professional services and others</b>				
<b>Incorporated and operates in Hong Kong</b>				
Hang Oi Charitable Foundation Limited		–	–	100
Henderson Warmth Foundation Limited		–	100	–
Megastrength Security Services Company Limited	(i)			
– Ordinary Shares		10,000	–	100
– Non-cumulative Preference Shares		400	–	100

Note:

(i) Companies audited by KPMG.

The above list gives the principal subsidiaries of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

# Principal Associates

at 31 December 2016

Details of the principal associates, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by		Principal activities
	The Company	Subsidiaries	
<b>Listed</b>			
Hong Kong Ferry (Holdings) Company Limited	–	33.41	Property development, property investment, ferry, shipyard and related businesses, and securities investment
Miramar Hotel and Investment Company, Limited	–	46.87	Property rental, hotel and service apartments, food and beverage operation and travel operation
The Hong Kong and China Gas Company Limited	–	41.52	Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses
<b>Unlisted</b>			
Star Play Development Limited	–	33.33	Property investment
上海旭弘置業有限公司 (established and operates in mainland China)	–	50	Property development and investment

The above list gives the principal associates of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

## Principal Joint Ventures

at 31 December 2016

Details of the principal joint ventures, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by		Principal activities
	The Company	Subsidiaries	
Best Value International Limited	–	50	Property investment and investment holding
Billion Ventures Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	50	Investment holding
Central Waterfront Property Investment Holdings Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	34.21	Investment holding
Double Cove Management Limited	–	50	Provision of property management services
Long Global Investment (Chengdu) Limited (established and operates in mainland China)	–	30	Property development
Newfoundland Holdings Limited	–	20	Property investment and hotel operation
Special Concept Development Limited	–	25	Property development
Surbana-Henderson (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Surbana-Henderson II (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Teamfield Property Limited	–	49.18	Property development
The Reach Management Limited	–	50	Provision of property management services
上海旭領湖置業有限公司 (established and operates in mainland China)	–	35	Property development

The above list gives the principal joint ventures of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.



# Corporate Information

## Board of Directors

### Executive Directors

Dr Lee Shau Kee

*(Chairman and Managing Director)*

Dr Lee Ka Kit *(Vice Chairman)*

Dr Lam Ko Yin, Colin *(Vice Chairman)*

Lee Ka Shing *(Vice Chairman)*

Yip Ying Chee, John

Suen Kwok Lam

Fung Lee Woon King

Lau Yum Chuen, Eddie

Kwok Ping Ho

Wong Ho Ming, Augustine

### Non-executive Directors

Lee Pui Ling, Angelina

Lee Tat Man

### Independent Non-executive Directors

Kwong Che Keung, Gordon

Professor Ko Ping Keung

Wu King Cheong

Woo Ka Biu, Jackson

Leung Hay Man

Professor Poon Chung Kwong

### Audit Committee

Kwong Che Keung, Gordon\*

Professor Ko Ping Keung

Wu King Cheong

Leung Hay Man

### Remuneration Committee

Wu King Cheong\*

Dr Lee Shau Kee

Dr Lam Ko Yin, Colin

Kwong Che Keung, Gordon

Professor Ko Ping Keung

### Nomination Committee

Dr Lee Shau Kee\*

Dr Lam Ko Yin, Colin

Kwong Che Keung, Gordon

Professor Ko Ping Keung

Wu King Cheong

### Corporate Governance Committee

Kwong Che Keung, Gordon\*

Leung Hay Man

Professor Poon Chung Kwong

\* *Committee Chairman*

## Company Secretary

Liu Cheung Yuen, Timon

## Registered Office

72-76/F., Two International Finance Centre

8 Finance Street, Central

Hong Kong

Telephone : (852) 2908 8888

Facsimile : (852) 2908 8838

Internet : <http://www.hld.com>

E-Mail : [henderson@hld.com](mailto:henderson@hld.com)

## Registrar

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

## Share Listing

The Stock Exchange of Hong Kong Limited (Stock Code : 12)

Shares are also traded in the United States through an

American Depositary Receipt Level 1 Programme

(Ticker Symbol: HLDCY)

CUSIP Reference Number: 425166303)

## Authorised Representatives

Dr Lam Ko Yin, Colin

Liu Cheung Yuen, Timon

## Auditor

KPMG

## Solicitors

Woo Kwan Lee & Lo

Lo & Lo

## Principal Bankers

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

Industrial and Commercial Bank of China (Asia) Limited

Mizuho Bank, Ltd.

Oversea-Chinese Banking Corporation Limited

## Corporate Information

### Group Executives

Dr Lee Shau Kee  
GBM, DBA (Hon), DSSc (Hon), LLD (Hon)  
General Manager

Dr Lee Ka Kit  
GBS, JP, DBA (Hon)  
Deputy General Manager

Dr Lam Ko Yin, Colin  
FCILT, FHKIoD, DB (Hon)  
Deputy General Manager

Lee Ka Shing  
Deputy General Manager

Yip Ying Chee, John  
LLB, FCIS  
Assistant General Manager

### Departmental Executives

#### Group Business Development Department

Yip Ying Chee, John  
LLB, FCIS  
Executive Director

#### Project Management (1) Department

Yu Wai Wai  
JP, BA (AS), B Arch, FHKIA, HonFHKIPM,  
Authorized Person (Architect), Registered Architect (HK),  
General Manager

#### Project Management (2) Department

Kwok Man Cheung, Victor  
BA (AS), B Arch (Dist), MSc (Con P Mgt),  
EMBA, FHKIA, MAPM, RIBA,  
Authorized Person (Architect), Registered Architect (HK),  
PRC Class 1 Registered Architect Qualification  
General Manager

Siu Sing Yeung, Tony  
B. Arch (Hons), HKIA,  
Authorized Person (Architect), Registered Architect (HK),  
PRC Class 1 Registered Architect Qualification  
Senior Deputy General Manager

#### Property Development Department

Wong Ho Ming, Augustine  
JP, MSc, MEcon, FHKIS, MRICS, MCI Arb, RPS (GP)  
Executive Director

Yu Hon Kwan, Randy  
MH, JP  
General Manager

Leung Shu Ki, Shuki  
BA (Hons), MHKIP, MRTPI,  
MCIP, RPP (HK), MCILT, MCI Arb, AHKIArb  
Senior Deputy General Manager

#### Property Planning Department

Leung Kam Leung  
MSc, PGDMS, FHKIS, FRICS, RPS (GP)  
General Manager

#### Construction Department

Wong Wing Hoo, Billy  
BBS, JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE  
General Manager

Chan Wai Yin, Desmond  
APHK  
Deputy General Manager

#### Engineering Department

Cheng Yuk Lun, Stephen  
BSc(Eng), C Eng, MICE, MStructE, MHKIE, RPE,  
Registered Structural Engineer, Registered Geotechnical  
Engineer, Authorized Person (List II), PRC Class 1  
Registered Structural Engineer Qualification  
Senior General Manager

#### Building Quality Planning Department

Lam Sik Kong, Eddy  
General Manager

## Corporate Information

### Sales Department

Wong Man Wa, Raymond  
*LLB, PCLL, Solicitor*  
*Senior General Manager*

### Sales (1) Department

Lam Tat Man, Thomas  
*MEM(UTS), DMS, EHKIM, MHIREA,*  
*CHINA GBL MANAGER*  
*General Manager*

### Sales (2) Department

Hahn Ka Fai, Mark  
*BSc, MRICS, MHKIS, RPS (GP)*  
*General Manager*

### China Sales Centre

Choi Ngai Min, Michael  
*BBS, JP*  
*In Charge*

### Portfolio Leasing Department

Lee Pui Man, Margaret  
*BHum (Hons)*  
*Senior General Manager*

Sit Pak Wing, Patrick  
*ACIS, FHIREA*  
*General Manager*

### Property Management Department

Suen Kwok Lam  
*BBS, JP, MH, FHIREA*  
*Executive Director*

### Retail and Hotel Management Department

Li Ning  
*BSc, MBA*  
*General Manager*

### Comm. & Ind. Properties Department

Dr Wong Kim Wing, Ball  
*BA(AS), B. Arch, PhD (Finance), FHKIA,*  
*Registered Architect (HK), Authorized Person (List 1, HK)*  
*General Manager*

### General Manager Department

Ngai Tung Hai, Karsky  
*FRICS, MHKIS, AACI*  
*Manager*

Dr Wong Kim Wing, Ball  
*BA(AS), B. Arch, PhD (Finance), FHKIA,*  
*Registered Architect (HK), Authorized Person (List 1, HK)*  
*Group Consultant*

### Finance Department

Lau Yum Chuen, Eddie  
*Executive Director*

Kwok Ping Ho  
*BSc, MSc, Post-Graduate Diploma in Surveying, ACIB*  
*Executive Director*

### Cashier Department

Fung Lee Woon King  
*Chief Treasurer*

### Human Resources Department

Dr Lam Ko Yin, Colin  
*FCILT, FHKIoD, DB (Hon)*  
*Executive Director*

Wong Ying Kin, Frankie  
*MSc, MBA, BBA, DMS, MIHRM*  
*General Manager*

### Company Secretarial Department

Liu Cheung Yuen, Timon  
*BEC, FCPA, CA (Aust), FCS, FCIS*  
*General Manager*

### Accounts Department

Wong Wing Kee, Christopher  
*BSc (Econ), FCA*  
*General Manager*

### Audit Department

Choi Kam Fai, Thomas  
*B Comm, CPA(Canada), CMA*  
*General Manager*

### Information Technology Department

Kum Tak Cheung, Bassanio  
*General Manager*

### Corporate Communications Department

Ngan Suet Fong, Bonnie  
*BBA*  
*General Manager*

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of the Company will be held at the Four Seasons Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 5 June 2017 at 11:30 a.m. to transact the following business:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditor for the year ended 31 December 2016.
2. To declare a Final Dividend (with no scrip option).
3. To (a) re-elect retiring Directors and (b) approve the revised director's fee fixed at the rate of HK\$150,000 per annum for each Executive Director/Non-executive Director, HK\$250,000 per annum for each Independent Non-executive Director and in case of each Independent Non-executive Director acting as member of (i) the Remuneration Committee at a fee of HK\$100,000 per annum and (ii) the Nomination Committee at a fee of HK\$100,000 per annum (or such amount which is in proportion to the time during the period for which he/she has held office) with effect from 1 July 2017 until the Company in general meeting otherwise determines.
4. To re-appoint Auditor and authorise the Directors to fix the Auditor's remuneration.
5. To consider as special business and, if thought fit, pass the following resolutions as Ordinary Resolutions:
  - (A) **"THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares of the Company to be issued pursuant to this Resolution, and upon the recommendation of the Directors, such number of new shares of the Company (the "Bonus Share(s)") which is equal to one-tenth of the total number of the issued shares in the Company on 13 June 2017 be allotted and issued without consideration to and among the Shareholders of the Company whose names are on the Register of Members of the Company on 13 June 2017 on the basis of one Bonus Share for every ten shares in the Company held by such Shareholders of the Company on such date, and that the Bonus Shares to be allotted and issued pursuant to this Resolution shall rank *pari passu* in all respects with the existing issued shares in the Company except that they will not be entitled to participate in any dividend declared or recommended by the Company in respect of the financial year ended 31 December 2016 and that the Directors be and are hereby authorised to deal with any fractions arising from the distribution by the sale of the Bonus Shares representing such fractions and to retain the net proceeds for the benefit of the Company and further that the Directors be and are hereby authorised to do all acts and things as may be necessary and expedient in connection with the issue of the Bonus Shares."
  - (B) **"THAT:**
    - (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to buy back shares of the Company on the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognised by the Stock Exchange and the Securities and Futures Commission for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;
    - (b) the aggregate number of shares of the Company to be bought back pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the total number of the issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period) and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

- (c) for the purposes of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) to be held; and
  - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the Shareholders in general meeting.”

(C) **“THAT:**

- (a) a general mandate be and is hereby generally and unconditionally given to the Directors to exercise during the Relevant Period (as defined in paragraph (b) of this Resolution) all the powers of the Company to allot, issue and deal with additional shares of the Company, and to make or grant offers, agreements or options (including, without limitation, Rights Issue (as defined in paragraph (b) of this Resolution), warrants, bonus warrants, bonds, debentures, notes and other securities convertible into shares in the Company), which would or might require the exercise of such powers either during or after the Relevant Period, provided that the aggregate number of the shares of the Company to be allotted, issued and dealt with pursuant to the general mandate herein, otherwise than pursuant to (i) a Rights Issue, or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or (iii) an issue of shares in the Company upon the exercise of the subscription rights or conversion rights attaching to any warrants or convertible notes which may be issued by the Company or any of its subsidiaries, or (iv) any scrip dividend pursuant to the Articles of Association of the Company from time to time, shall not exceed 20 per cent. of the total number of issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period) and the said approval shall be limited accordingly; and
- (b) for the purposes of this Resolution:

“Relevant Period” shall have the same meaning as assigned to it under Ordinary Resolution (B) of item no. 5 as set out in the notice convening this Meeting; and

“Rights Issue” means an offer of shares in the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to holders of shares of the Company whose names appear on the Register of Members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

## Notice of Annual General Meeting

(D) “**THAT:**

the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Ordinary Resolution (C) of item no. 5 as set out in the notice convening this Meeting be and is hereby extended by the addition to the aggregate number of the shares which may be allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the Directors pursuant to such general mandate the aggregate number of shares in the Company bought back by the Company since the granting of the said general mandate pursuant to the exercise by the Directors of the powers of the Company to buy back such shares under the authority granted pursuant to Ordinary Resolution (B) of item no. 5 as set out in the notice convening this Meeting provided that such number of shares shall not exceed 10 per cent. of the total number of issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period).”

By Order of the Board  
**Timon LIU Cheung Yuen**  
Company Secretary

Hong Kong, 25 April 2017

Registered Office:  
72-76/F., Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

### Notes:

- (1) *At the above Meeting, the Chairman will exercise his power under Article 80 of the Articles of Association to put each of the resolutions to be voted by way of a poll.*
- (2) *A Member of the Company entitled to attend and vote at the above Meeting is entitled to appoint one proxy or more proxies to attend and speak and on a poll, to vote instead of him at the Meeting, and separate proxies may be appointed by a Member to represent the respective number of shares held by the Member as specified in the relevant proxy form. A proxy need not be a Member. Form of proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of that power of authority) must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited (the "Company's Registrar") at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof or, in the case of poll taken more than 48 hours after it was demanded, not less than 24 hours before the time appointed for the taking of the poll.*
- (3) *For the purpose of determining Shareholders who are entitled to attend and vote at the above 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. In order to qualify for attending the above Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar at 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.*
- (4) *For the purpose of determining Shareholders who qualify for the proposed issue of 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 issue of final dividend and Bonus Shares, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 8 June 2017. The proposed issue of final dividend and Bonus Shares will be distributed to Shareholders whose names appear on the Register of Members of the Company on Tuesday, 13 June 2017.*
- (5) *The proposed increases in directors' fees as referred to in Ordinary Resolution (b) of item no. 3 above were recommended by the Remuneration Committee and the board of Directors. Except for the proposed changes, the existing fees payable to each member of the Audit Committee and each member of the Corporate Governance Committee shall remain intact.*
- (6) *A circular containing details of the Ordinary Resolutions (A) and (B) (including the relevant explanatory statement) of item no. 5 above will be sent to Members for perusal.*
- (7) *Concerning Ordinary Resolutions (C) and (D) of item no. 5 above, approval is being sought from Members, as a general mandate in compliance with Sections 140 and 141 of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, that in the event it becomes desirable for the Company to issue any new shares of the Company, the Directors are given flexibility and discretion to allot and issue new shares up to 20 per cent. of the total number of the issued shares plus the aggregate number of shares bought back by the Company pursuant to the general mandate approved in Ordinary Resolution (B) of item no. 5 above. Save as disclosed (if any), the Directors, however, have no immediate plans to issue any new shares of the Company under the said mandate being sought.*
- (8) *If item no. 2 and Ordinary Resolution (A) of item no. 5 above are approved, the final dividend will be paid on Wednesday, 21 June 2017 and share certificates for the Bonus Shares will be dispatched to the Shareholders of the Company on the same day.*

## Financial Calendar

Interim Results	Announced on Tuesday, 23 August 2016
Final Results	Announced on Tuesday, 21 March 2017
Annual Report	Posted to Shareholders on Tuesday, 25 April 2017
Closure of Register of Members	<p>(1) To be closed from Tuesday, 30 May 2017 to Monday, 5 June 2017 for the purpose of determining Shareholders who are entitled to attend and vote at the Annual General Meeting</p> <p>(2) To be closed from Friday, 9 June 2017 to Tuesday, 13 June 2017 for the purpose of determining Shareholders who qualify for the proposed final dividend and Bonus Shares</p>
Annual General Meeting	To be held on Monday, 5 June 2017
Dividends – Interim	HK\$0.42 per share (with no scrip option) – paid on Tuesday, 20 September 2016
– Final (Proposed)	HK\$1.13 per share (with no scrip option) – payable on Wednesday, 21 June 2017
– Bonus Shares (Proposed)	one bonus share for every ten shares held
Issue of Bonus Shares (Proposed)	Share Certificates to be posted to Shareholders on Wednesday, 21 June 2017







恒基兆業地產有限公司  
HENDERSON LAND DEVELOPMENT COMPANY LIMITED

