Annual Report 2016

We As One

恒隆集團
HANG LUNG GROUP

HANG LUNG GROUP LIMITED
STOCK CODE: 00010

The twin covers of the 2016 Annual Reports of Hang Lung Group Limited (HLGL) (stock code: 00010) and Hang Lung Properties Limited (HLPL) (stock code: 00101) focus on Hang Lung's prized portfolio of properties across Hong Kong and the Mainland. The theme "We As One" represents our great team spirit and how we, as a united force, ride the tides of the times and overcome all challenges to attend new triumphs. For our business to weather these testing times, we must not lose sight of our vision to develop into an esteemed national commercial property developer.

The five main sections of the Annual Reports adopt, as their visual representations, the imagery of a basketball competition, a rope-skipping team, a hiking team, a three-legged race and a dragon boat team, each evoking the essence of unity of purpose and endeavor that breeds success. In these likenesses is seen the reflection of Hang Lung: "We as One", endowed with a shared **vision**, selfless **collaboration**, **cohesion** that makes us act as one, **care** for the whole, and a farsighted **strategy**.

We Do It Right

We Do It Right is a business philosophy that extends beyond our core business and embraces the initiatives we undertake on behalf of our staff, the community and the environment. We believe this is fundamental to our success and helps us win the trust of our stakeholders.

In this annual report we describe the progress we have made during the year, using meaningful metaphors to signify our efforts to create unmatched value for our cherished shareholders, tenants and customers.

As Hang Lung's business continues to grow, we will continue to maintain our high standards in order to become a highly admired national commercial property developer in Hong Kong and mainland China.

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Corporate Profile

Hang Lung Group Limited (stock code: 00010) is one of the most established listed companies in Hong Kong with more than 50 years of experience in the property development market. Through Hang Lung Properties Limited (stock code: 00101), we have built a leading reputation as a top-tier property developer in Hong Kong and on the Mainland, with a recognized commitment to quality.

Through Hang Lung Properties, the businesses in Hong Kong include property development for sale and lease. Our substantial portfolio encompasses well-planned large-scale mall/commercial, office and residential developments in prominent locations.

We made our first investment on the Mainland in the early 1990's as the foremost step in our future business expansion. Adhering to the strategy of developing prime sites in major cities, our portfolio of investment properties currently comprises two large-scale developments in Shanghai – the mall/commercial, office and residential complex Grand Gateway 66, and the commercial and office complex Plaza 66. Together with our prime landmark complexes of Parc 66 in Jinan, Center 66 in Wuxi, Riverside 66 in Tianjin, and Olympia 66 in Dalian, as well as Palace 66 and Forum 66 in Shenyang, we are vigorously building on our successes to develop similar properties in major cities including Kunming and Wuhan.

We will continue not only to expand our horizons on the Mainland, but also to invest in our portfolio in Hong Kong, as we aim to become a highly admired national commercial property developer.

Financial Highlights

RESULTS

For the year ended December 31

in HK$ Million (unless otherwise stated)	**2016**	2015
Revenue		
Property leasing	**8,326**	8,330
Mainland China	**4,427**	4,625
Hong Kong	**3,899**	3,705
Property sales	**5,322**	1,198
Total revenue	**13,648**	9,528
Net profit attributable to shareholders	**3,713**	3,211
Dividends	**1,089**	1,084
Shareholders' equity	**75,658**	75,470
Per share data		
Earnings	**$2.73**	$2.37
Dividends		
Total	**$0.80**	$0.80
Interim	**$0.19**	$0.19
Final	**$0.61**	$0.61
Shareholders' equity	**$55.5**	$55.7
Net assets	**$101.3**	$103.5
Financial ratio		
Payout ratio	**29%**	34%
Net debt to equity ratio	**4.8%**	4.2%
Debt to equity ratio	**22.5%**	26.6%

UNDERLYING RESULTS

For the year ended December 31

in HK$ Million (unless otherwise stated)	**2016**	2015
Underlying net profit attributable to shareholders	**3,772**	2,700
Earnings per share (Note 1)	**$2.78**	$1.99
Payout ratio (Note 1)	**29%**	40%

Note:

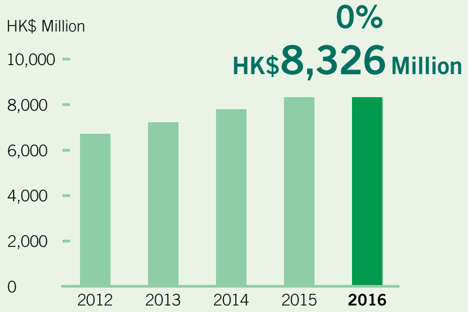
1. The relevant calculations are based on the underlying net profit attributable to shareholders.

Rental Revenue

Overall

0%

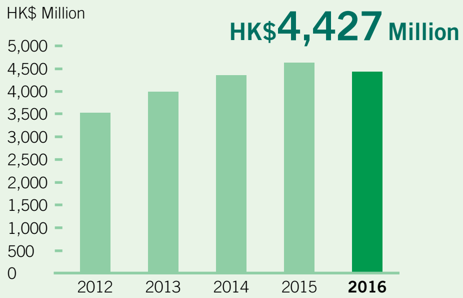
HK$8,326 Million



Mainland China

-4%

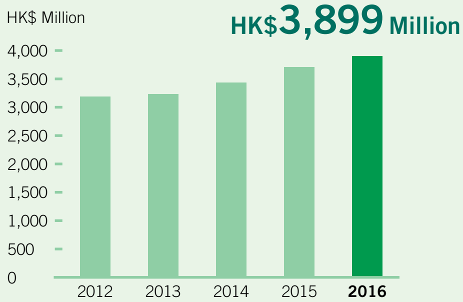
HK$4,427 Million



Hong Kong

+5%

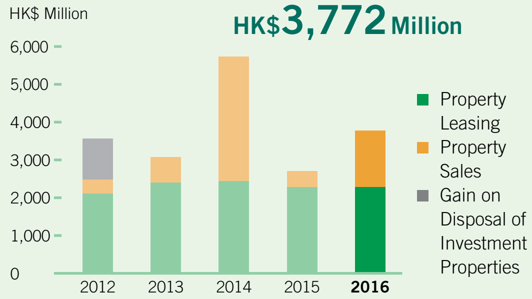
HK$3,899 Million



Underlying Net Profit

+40%

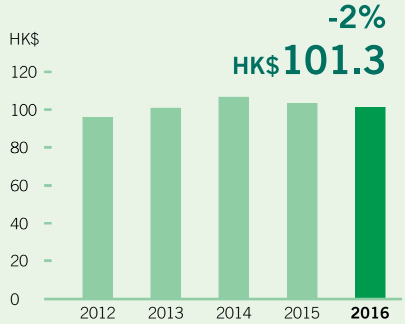
HK$3,772 Million



Net Assets per Share

-2%

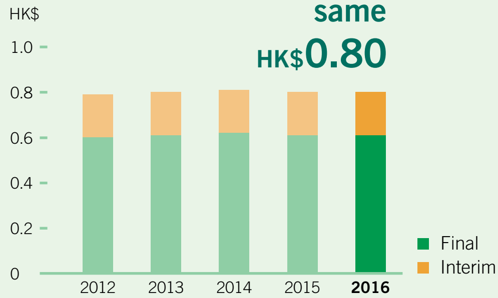
HK$101.3



Dividends per Share

same

HK$0.80



Vision

In Hang Lung, we share a common vision and uphold the "We Do It Right" business philosophy to strive for excellence and achieve new heights for the Company.


BPR

Chairman's Letter to Shareholders

RESULTS AND DIVIDEND

For the year ended December 31, 2016, revenue leaped 43% to HK$13,648 million. Net profit attributable to shareholders increased 16% to HK$3,713 million. Earnings per share rose similarly to HK$2.73.

Excluding all the effects of property revaluation loss, the underlying net profit attributable to shareholders advanced 40% to HK$3,772 million. Underlying earnings per share increased likewise to HK$2.78.

The Board recommends a final dividend of HK61 cents per share payable on May 18, 2017 to shareholders of record on May 5, 2017. If approved by shareholders, total dividends per share for the year ended December 31, 2016 would be HK80 cents.

BUSINESS REVIEW

Any young person with an ambition to be successful in business should first ask himself or herself these two questions: where in this globalized world should I go, and to which line of business should I devote myself?

Imagine a young Chinese man in the post-World War II (WWII) period aspiring to amass a world-class fortune. Where was the best place to achieve this and in which industry? Fast-forward to today with the benefit of hindsight, the answer is rather obvious. Hong Kong must be one of the best cities, and real estate was among the best if not the best business.

It is instructive to ask a few more questions. The first is “Why Hong Kong and not elsewhere?” and the second is “Why real estate?” Let me start by addressing the first issue. For various reasons, certain countries are inappropriate for such a young person: lack of prospects for economic development, heightened local competition, visa problems, language and cultural barriers, and his own inadequate education, just to name a few. Those ethnic Chinese who succeeded in the U.S., Canada, Australia, Japan, Western Europe or Brazil are rare exceptions, but one could hardly compare their wealth to those in Hong Kong.

Outside of our home city, the bulk of those who became truly rich were mainly in Southeast Asia and Taiwan. However, each place had its own unique problems. In most ASEAN countries aside from Singapore, corruption was a serious issue. It was simply not worth acting against one’s own conscience only to be tormented by sleepless nights. With the Chinese being an ethnic minority in many societies, anti-Chinese sentiments and even periodic uprisings were truly troubling.

Even if you had made it big as some did, weak societal institutions in those economies led to the destruction of several decades of accumulated wealth during the Asian Financial Crisis that began in 1997. Currency depreciation alone wiped out significant portions of it. Many of my business friends in Indonesia and Thailand, for example, found themselves left with only a fraction of their previous glory.

Singapore was a different story. While it did not have many of the problems of its neighbors mentioned above, the clean and competent government became so powerful that it left little room for big private enterprises to develop. Government-controlled businesses dominated the most lucrative sectors. As such it was much harder to accumulate wealth on a grand scale. For the society as a whole, this might not be a bad thing, but it would hardly be ideal for the young man with sizable ambitions as described above.

Personally I have considerable respect for Taiwan business leaders, especially those in technology-related manufacturing endeavors. To be successful, they had to keep abreast of the newest technology and possess excellent managerial skills. Just take a look at the bookstores in Taiwan’s airports: there is an abundance of publications covering these topics. The same phenomenon is also observed nowadays in mainland Chinese airports, but not the one in Hong Kong!

However, Taiwan had serious difficulties of its own. Compared to Hong Kong or Singapore, it was far more corrupt, albeit in a rather subtle way. The grey economy, for example, was much larger as a percentage of the total economy. Equally troubling was the ubiquitous presence of local politicking over the past few decades which deeply affected commercial activities. The society was preoccupied by petty politics and so it became more divided. None of this was good for business. As a result, the economy has been stagnant for some time. The root cause was not economics but politics.

Fortunately, mainland China welcomes Taiwanese businessmen. Not far from Shanghai in the Suzhou region alone, it is said that there are well over one million Taiwanese people living and working there, mostly running their own businesses. To be sure, the Mainland has its own set of challenges, but at least unlike small Taiwan with a population of just over 23 million, the market is huge. In fact, if Taiwan were to play its political cards right vis-à-vis Beijing, the island could be much more thriving economically. But Taiwan is currently doing just the opposite and runs the risks of dying a not-too-slow economic death.

This brings me back to Hong Kong which has proven to be the best place for the ambitious young Chinese man after WWII to build a world-class fortune. Serious corruption subsided after the establishment of the Independent Commission Against Corruption (ICAC) in the early 1970's. (One should take note that ridding a society of corruption in general does not necessarily mean corruption has left the hearts of the players therein.) Thanks to the then colonial government, Hong Kong has one of the best social institutions in Asia, for example, its public administration, public finance, infrastructure, education and health care. Private property rights were respected and personal freedom, while not perfect, was very acceptable. There was no local politics to speak of, for the then British masters did not allow it.

Like many of our neighbors, post-WWII rebuilding presented all kinds of commercial opportunities. Moreover, Hong Kong had unique advantages which were related to politics. When mainland China was closed to the world after the Korean War, we benefited. Whenever China underwent periods of domestic political turmoil, which happened quite frequently from the 1950's through the 1980's, we gained economically because our Motherland needed us more then. Inbound immigration as a result of each political crisis saw an influx of both people and business opportunities. Likewise, when the Mainland opened up in earnest in the early 1980's, again Hong Kong was the first beneficiary. Certainly there are risks in doing business anywhere, but one could hardly script a more favorable scenario for the young man mentioned above!

As a result, fortunes of all sizes and in great numbers were created. Even the shocks in the 1980's and 1990's relating to the city's return to her Motherland did not seriously dampen the momentum. The only real setback was the devaluation of the currency in 1983.

Fortunately thereafter, it was pegged at HK$7.8 to the U.S. Dollar and has remained stable since. No wonder many Hong Kong people believe that ours is a particularly blessed city.

The next question is: what business should the young Chinese man from the Mainland engage in after WWII if not real estate? Trading could be an option, but earning very small margins on each transaction would not make it easy to accumulate a sizable fortune. Also the associated risk was not small. Only very few such operators made it really big.

Manufacturing could have been another good area, and this was the case throughout the 1950's, 1960's and 1970's. By the early 1980's, rising labor and land costs had rendered our city uncompetitive. For better or for worse, the economic opening of the Mainland beginning in 1979 gave manufacturers a new lease on life. Many of them moved the old machines to the Mainland with cheap land and factories and they continued to thrive for a while. But the lag in technology upgrades has prevented most of them from growing further, nor did they change their product lines to higher value items. As a result, most of our manufacturers have remained small and insignificant in the global scheme of things.

Like everywhere else, the service sector needs a big market to scale up. Until the 1990's when the Mainland economy opened in earnest, there was not the opportunity. Furthermore, branding is critical and very few of our businessmen did particularly well in this area.

Shipping was another good option at times but it was highly cyclical. It is also an industry that needs strong support from banks, which may not be readily available to most. At one point after WWII, some of the world's biggest ship owners came from our part of the world, including Hong Kong. The most successful ones eventually continued their wealth accumulation only after they got into the local real estate business.

Compared to other industries, ours has many attractions. Young Mainlanders coming to Hong Kong 50 to 60 years ago were probably only moderately educated. Real estate is not rocket science and any hard-working individual with a reasonable intellect can easily handle it. Lax regulations before the 1990's made entry to the industry relatively easy. The unit price is high but mortgages were usually available. The latter meant that one could do a lot more business than one's capital would otherwise allow. The former indicates that slight movements in price can make or lose a lot of money. The many who survived usually made a lot of money.

To be sure, real estate is a long-dated asset class and construction takes years to complete. This makes cyclicality unavoidable. But as long as one is not overly aggressive in one's finances, or is apt in navigating cycles by deleveraging ahead of market troughs, one will not only survive the cycles but will thrive because of them.

As I explained years ago, perpetual shortages of land in Hong Kong gave price movement a unique characteristic. Namely, each peak is higher than the last one, and each trough is usually higher than two peaks ago. So even if one buys at the top, as long as one makes it through the ensuing bottom, he or she will still make a lot of money. The same cannot be said for mature markets like the West.

History shows that many Hong Kong young people amassed world-class fortunes by doing exactly this. Hang Lung is one such business which has been relatively successful in this game. Once sufficient capital and experience are accumulated, a steady future should be assured. Very few big names failed even during the severe market turbulence of the 1980's relating to the Sino-British negotiation on the return of Hong Kong to her Motherland. Hang Lung went through a rough patch at that time, but like many others, we survived. In fact, we all went on to benefit from the ensuing long bull market. Even the Asian Financial Crisis of 1997-2002 and the Global Financial Crisis of 2008-2009 did not dislodge any of these bigger players. Instead, some of us took advantage of the down market and created serious shareholder value. By this time, this young man should be very rich.

Huge wealth notwithstanding, by now these companies are about 50 to 60 years old. An urgent issue facing them is management succession. Many of these founders are now gone or are very elderly. Some even have second generation leaders near retirement. So far most of them seem to have had a smooth transition. Fighting over family inheritance at such a time is perhaps inevitable in some cases but as long as company performance is not seriously affected, the public shareholders need not be overly concerned.

Instead, the competence of the next generation is the issue to watch. It would not be easy for the children of the founder to match their father's brilliance, and to have the third generation perform equally well is even more challenging. Probability seems to work against such family-managed companies, public or private.

Another troubling issue is that the external environment has changed a lot over the decades. The world goes in cycles; few industries remain "hot" indefinitely. Is Hong Kong real estate still the best industry to be in now and for the coming years? Have policy changes, which are inevitable, rendered the sector less attractive? Even if it is still attractive, has the competitive landscape changed so much such that the winners of the past will now have a much smaller chance of success? None of us should take answers to these questions for granted.

Let us assume for a moment that Hong Kong real estate is still a good business to be in. One should nevertheless recognize that there are now many new market participants who may disrupt the industry.

To be sure, having new entrants is nothing new, and there will always be changes in the dominant players. Until the late 1970's, for example, British firms dominated Hong Kong's commercial landscape. Thereafter, the colonial master, out of enlightened self-interest, decided that Chinese businessmen should be allowed to play in the big league. They began to allow former "second-class citizens" to buy up major British-run enterprises.

From then on, there were two main forces in the local business scene: a few remaining large British concerns and a rising cadre of big Hong Kong Chinese enterprises. The latter group was almost exclusively rooted in real estate, and the high land price policy of the then government, which was partially politically motivated, made them very wealthy indeed. In fact, some of these Chinese-run companies grew so much that they surpassed in size of all but the largest British entities.

Under the flawlessly executed policy of the colonial government, and with the help of some luck, an amazing run-up in real estate prices occurred right before 1997. One of the highest transacted unit prices took place on June 30 that year, the last day of the British rule.

One wondered how prices could be sustained thereafter under Chinese rule. Well, they did, the onslaught of the Asian Financial Crisis on July 2, 1997, notwithstanding. Prices rose until the end of that year by which time we sold a considerable number of commercial buildings at a great profit. Hong Kong went through the greatest political change and yet that young man continued to thrive.

Prices peaked around December 1997 and January 1998 and then started to fall under the weight of the Asian Financial Crisis. When it was about to end in 2002, Hong Kong, like much of East Asia, was hit by SARS. One would expect the young man's fortune to end, but it did not. In fact, the greatest price hike was just beginning.

Thanks to the misguided policies of the then HKSAR government, prices resumed their climb in 2004. With the exception of the brief hiatus during the Global Financial Crisis of 2008, shortage of land supply had kept prices up. They peaked on September 13, 2015, the day Hang Lung celebrated its 55th Anniversary. 2016 saw a correction which no doubt was the result of the present government's efforts to supply land.

But as I had previously explained, what the present government is confronted with is the lack of available buildable land to sell. The previous administration did nothing to prepare a land bank, so residential prices went up again in the fourth quarter of 2016 and soon reached new heights. This was when we began to part with our remaining inventory. It is likely that, with the exception of the luxury semi-detached houses on Blue Pool Road, we may sell out all completed apartments this year.

Since the beginning of the rise of Chinese family-run firms in the late 1970's and early 1980's, over 35 years have passed. Both economically and politically, much has happened locally and beyond. The most significant development for Hong Kong and even to the world was the rise of mainland China. Its effects could be felt everywhere, for decades of double-digit economic growth for over one billion people could not but affect every corner of the earth. Could Hong Kong real estate be exempted from this, for better or for worse?

There is no reason why Hong Kong cannot continue to thrive. Sadly, like Taiwan, politics has become poisonous after 1997. We have been seriously paring down our own economic growth potential, and may continue to do so. But even then, we should still perform acceptably compared to much of the rest of the world. After all, as long as the Mainland, with a population of 1.38 billion, remains socially stable and economically healthy, what is Hong Kong with 7.3 million people! We are still useful to our Motherland, although our value has greatly diminished since 1997. It is true that 20 years ago some 20% of the Mainland economy was one way or another related to Hong Kong, but today the number is less than 2%. That said, from Beijing's perspective, it is much better to have the help of Hong Kong, which is administered under the "One Country Two Systems" construct. So for practical and other reasons, Hong Kong will be well taken care of.

Nevertheless, it behooves our citizens to sober-mindedly recognize the reality: as a small territory and an entrepôt, our city's economic raison d'être or, if one wants to be more pragmatic, our utility is always to serve our bigger neighbors. It was once the U.S. and Europe, but now we are almost exclusively beholden to the Mainland. Size, geography and history dictate that.

Just as Hong Kong's overall situation has fundamentally changed, there are also two potential game changers in our industry. The first relates to land supply and the second to the new players from the Mainland. I have touched upon them earlier but will here expound further.

For right or wrong reasons, Hong Kong has for decades suffered from a serious shortage of land supply. For the first time, the present HKSAR administration is doing something to change this. While it takes time to right the wrongs since buildable land takes time to prepare, the policy reversal is unmistakable. Unless subsequent administrations unnecessarily alter that, one day, sooner rather than later, a supply-demand equilibrium will be achieved. Thereafter, Economics 101 tells us that housing prices will soon moderate. This will become an important legacy of the present administration.

Like most other businesses, real estate should yield reasonable but not exorbitant profit. Due to reasons explained above, our industry has for decades been an exception. In the long run, it must and will revert to the mean. Favorable conditions cannot last forever. The heyday of Hong Kong real estate will soon return to normal. The past 30 to 40 years were frankly an anomaly.

That said, there should still be reasonably good opportunities. By nature our industry is a cyclical one and those who time the cycles well will still make good profit. Moreover, Hong Kong's return to the Motherland brings unexpected dividends. There are now so many wealthy – indeed many super wealthy – Mainlanders who want to buy residential as well as commercial properties in our city. They will keep our sector's spirits high. Periodic changes in Hong Kong and Mainland policies to encourage or limit such purchases seem inevitable, but it is still good to know that there are perhaps hundreds of thousands, if not more, of our compatriots just north of the border who would like to own our real estate.

One more historical note: before 1997, successful businessmen were admired by the Hong Kong society. Like in many other places around the world, there is now an increasing anti-rich sentiment. Whatever the cause is in a sense irrelevant, for societal affairs always move in cycles. Human nature dictates that. But how should we view these property moguls?

First, the market environment in which they accumulated their initial wealth was a very open one. Anyone could have joined the game. Almost all of the successful company founders began as poor men. It was through hard work and wits that they climbed the economic ladder. As such, the first generation developers are still worthy of our respect. As a famous local stock market investor cum journalist once said, his greatest regret in life was not having entered the property business wholeheartedly. Nothing prevented him; it was his own decision. He too accumulated some wealth, but only at a fraction of his real estate friends'.

Some may accuse those friends of corruption and undue influence on the government. There was considerable truth to this, but I can hardly think of one emerging economy anywhere in the world where that was not the case. At a certain stage of economic development, corruption is inevitable. As explained earlier, Hong Kong is fortunate to have the ICAC since the early 1970's, which has to a good extent cleaned up the problem. Given human nature, total eradication is impossible but compared to almost everywhere else in the world, Hong Kong is among the least corrupt.

Here I may add that the situation has further improved since 1997. A case in point is the recent high-profile imprisonment of some of the most senior government officials as well as top businessmen. It was almost unimaginable before then.

The proper way to assess these real estate titans is in my opinion twofold. The first is whether they have forsaken their former corrupt ways and practices. Many have, but not everyone. This is inevitable. In this regard, I am proud to be the chairman of your Company, Hang Lung. I can safely say that while the Company may not be the most successful in dollar terms, we are from our early days one of the most ethical.

The other way to evaluate them is on how much they give back to society. Monetary donation is necessary but not sufficient. The rich must behave in a way that engenders respect from society. Words and actions are important but good deeds must come from the heart. As Chairman Mao once said, the eyes of the citizens are sharp. They will not be fooled – at least not for long.

The other potential game changer relates to the competitive landscape. Because of extremely high unit price – in fact among the highest in the world – it is difficult and indeed inadvisable for outsiders to enter our real estate market. Over the decades, many foreigners have tried but few seriously succeeded. Major players today are basically the same group 30 to 40 years ago. However, there may be new players on the horizon.

Over the past 30 years, many state-owned enterprises have become behemoths by world standards. Some of them have simply outgrown their own industry or their home market China. While a few are already significant in the world, such as banks, more are aspiring to spread their wings.

The first place many of them would go to is Hong Kong. After all, it is part of the same country yet different, thanks to the "One Country Two Systems" construct. And since some of them are already in the real estate business on the Mainland, and given the open nature of the Hong Kong market, they can easily become our competitors. So besides some Mainland developers who are entering our game, we are also seeing many whose main business is something else. Before they arrive at our doors, we have no idea who they are or if they have an interest in our market.

As I have in years past written extensively, many Mainland developers have grown extremely large in recent decades. The size of their debt is often matched by that of their market cap. Now in Hong Kong, they are confronted with a new environment which, while very small compared to their home market in terms of number of units – several of which build multiples of the total annual supply of new apartments in Hong Kong – has one of the world's highest unit prices. Having a big business back home may have caused them to think that our "small" market is easy or otherwise insignificant to them. The high prices they are willing to pay for land are astonishing.

They reminded me of the prices local developers paid in the irrationally exuberant days of 1994-1997, right before the crash brought on by the Asian Financial Crisis. Hang Lung stopped buying land in early 1994 and was ridiculed while other local players continued to drive up prices. They all learned a painful lesson when the market fell precipitously in December 1997 and January 1998. This time around, all the locals stayed away from the market. We all simply watch the Mainlanders play. They probably think we are foolish just like how others saw Hang Lung before 1997. Only time will tell.

The bottom line does not seem to be the main consideration of these newcomers. Perhaps they have other reasons to participate in our market. One less sinister view is that today money is cheap, but even so, the land price they are willing to pay seems to go beyond the cost of money. Even if they do not need to pay interest, it is difficult to imagine how they can turn a profit. They must know something that we do not.

One possibility is that they bring with them a large group of potential Mainland purchasers of the completed apartments. This tactic has been used by Chinese developers building overseas like in Malaysia and Australia. Whether they can repeat the feat in Hong Kong is yet to be seen. Skeptical as one may be, we will take a wait-and-see attitude.

So the question for local developers is: “What do we do next?” One obvious answer is to wait for the market to fall. It will take a few years for the land acquirers of today to feel the pain at the time of apartment sales. Will this mean that these Mainlanders will in the interim continue to bid up prices? None of us can know at this time. Although unlikely, the possibility always remains that Beijing will notice this phenomenon, which will be perceived as not good for Hong Kong, and discourage such land purchases. Barring that, it is possible for land prices to continue to rise further.

But as we all know, there is no necessary relationship between land and housing prices. Factors behind land prices can be rather detached from those of residential units. A crash in the former does not automatically lead to a fall in the latter. The nexus can be only psychological. If so, then there may come a time when land price will again become attractive to local players. The only problem is that no one knows for sure when that day will arrive.

The assumption is that when the bottom falls out, pain will cost the present land purchasers to learn. They may or may not. Sometimes it takes more than one market cycle for participants to learn the lesson. Moreover, there will be many other Mainland business groups who may join the game at that time. Hong Kong’s property market has always been an extremely open one. Capital can freely come and go. As long as Beijing does not limit its exit on their end, we welcome them. That, however, may fundamentally change our market. There will be almost an unlimited number of possible new players.

This is not necessarily bad for Hong Kong in the long run. An increased number of participants should mean that high land price will remain and the government’s coffers will stay full. If so, it is conceivable that our personal and/or corporate tax rates may fall further. After all, for competitive reasons, the trend around the world seems to point to the lowering of taxes. Rising revenue will also lighten the government’s burden for ever-increasing social services. The Basic Law governing Hong Kong stipulates that the special administrative region remains a low tax regime. Higher revenue from the sale of expensive land will help in this regard.

What will happen to those high land price purchasers? We should not care for we are a free market. What concerns us is the future of local developers like us. For reasons given above, the lucrative days of Hong Kong real estate development may be coming to a close. Experiences of the past has not prepared us well for other industries.

Moreover, Hong Kong developers, and indeed our businessmen in general, are usually short-sighted. Our post-WWII history described earlier has created a special breed of entrepreneurs. For decades before 1997, we lived on borrowed time in a borrowed place. Uncertainties surrounding the city's return to her Motherland had made these entrepreneurs want to make money fast and get out of town if necessary. This is epitomized by one of our biggest property magnates who never owned a building except the company's head office. People like him only buy land, build and sell. There was a deep suspicion about the future of our city after 1997. Although 20 years have passed and Hong Kong has continued to thrive, this short-term mindset cannot be easily changed.

Where shall that young man go now and in what business shall he engage in? 50 to 60 years later, the same two questions will come back to haunt him and his offspring.

With plenty of money on hand, he can go anywhere. Most likely he and his children, like many wealthy families before them, can turn themselves into passive investors. Use money to make more money. This is certainly legitimate. The only problem is the future of his now publicly listed real estate company. Will he be able to convince his investors that he can still make as much money in Hong Kong properties as he did in past decades? Continued success in the business is questionable.

Since China has economically grown so much in recent decades, an obvious answer to the two questions above is to enter the Mainland real estate market. But as I had written a few years ago, the best days of their residential market may be over. We have seen the rise of many big players in the past 20 to 30 years, some of which are now entering our market. If Mainland opportunities abound, why bother to come to our much smaller market? Moreover, what makes Hong Kong developers capable of competing with so many local giants on the Mainland?

The only alternative then is commercial properties, especially high-end shopping centers. Of all the traditional real estate product types, the most fungible is industrial buildings, including warehouses. Whether one occupies this one or that one usually matters little. Next in line in terms of decreasing fungibility is residential properties and then offices. The least fungible is retail space, especially in high-end properties. A one-block separation in location, or being on the opposite side of the street albeit on the same block, may make or break a mall.

The exact order exists in terms of the expertise required to develop these facilities – it is easiest to build an industrial building, while a luxury mall requires the most know-how and experience. The ease of management of the various types of properties follows the same pattern. For all these reasons, I believe the best business for Hong Kong developers to enter the Mainland market is high-end retail space. After all, there is little expertise on this on the Mainland.

Some say there is a glut of shopping centers on the Mainland. If one were to superficially and indiscriminately look at data, one may come to this conclusion. However, observe carefully and one will quickly discover that in each city, the top one or two luxury malls account for the lion's share of sales dollars for high-end goods. As a result, their rent is much higher than the rest. The key is to become one of these two in any particular city. This, in a nutshell, has been our strategy since 1992.

The key to success in this sector as I had previously written is what I called the real estate genetics for luxury retail facilities, namely location, size, design and construction. Embrace them and one will have a good chance of success; ignore them then failure is almost unavoidable.

For the past 25 years, Hang Lung was fortunate to have decided upon and adhered to this strategy. There may be other equally or even better ways forward, but we have yet to discover one. Every Hong Kong property company of our genre must search for its own course forward. For better or for worse, our path for now is set. We believe that our strategy when adequately executed will lead to continued shareholder value creation.

A legitimate question here is: did we miss out on the opportunities to build residential units in Hong Kong after 2004 when the city recovered from SARS? To some extent yes, for we have concentrated our efforts in building up our commercial portfolio on the Mainland. However, Hong Kong land prices during that period were not cheap. Their return was acceptable but not great, and the risks involved were deemed by us as not that attractive.

Another possibility was to enter the Mainland residential market as some Hong Kong developers did. The risk-reward profile there was perhaps even less favorable than that in Hong Kong. We were also worried about corruption. Moreover, to compete against the many local big boys seemed heroic which bordered on foolhardiness.

Similar to the 1980's and 1990's in Hong Kong, unless a land bidder is prepared to project housing prices that are much higher than that of the time of land purchase, he will not win. All too often, government land auctions produced successively higher historic records. If you lose, you are sad; but if you win, you really begin to worry. As a Mainland developer once said to me, if he does not buy at crazily high prices, he will die immediately, because he has no more raw material; but if he buys now, he may probably die later. The choice then was clear: jump in with both feet but with eyes closed!

On the other hand, our Mainland strategy should be executed as early as possible. Once the best commercial land in a city is acquired by others, we will almost never see it again. We may even be forced to relinquish that city. For this reason, early market entry is critical. As such, we do not regret having spent our efforts since 2004 on the Mainland.

Before concluding this section, let me briefly summarize our performance of the past years. Taking advantage of rising Hong Kong residential prices in the last quarter of 2016, we sold a lot of our completed apartments with excellent profits. We even began to part with the luxury semi-detached houses on Blue Pool Road. Prices are quite satisfactory.

Our rental properties in Hong Kong did acceptably, advancing 5% in the top-line. In the Mainland portfolio, revenue grew 2% in local currency terms. But due to a 6.1% devaluation of the RMB, we recorded a drop of 4%. There was a revaluation loss on the Mainland which was partially offset by gains in Hong Kong. Like in 2015, we saw a serious retranslation loss due to the falling RMB.

All told, underlying net profit attributable to shareholders rose by 40% and so did underlying earnings per share. After revaluation loss, profit attributable to shareholders was up 16% and earnings per share, 15%.

PROSPECTS

What remains to be done and done well is the execution of our chosen strategy. This was why in the past several years we have devoted much time to reorganizing our management. We are now a hugely different entity than before. Your management is convinced that if our strategy is properly executed, it will have relatively low risk but potentially rather high return.

In our first 30 years (1960-1990), a solid foundation was laid. In the next 25 years (1991-2015), we redirected and firmly established the Company in the Mainland market. It will take the third generation leaders to adequately execute the strategy and reap the financial benefits. Under the direct supervision of the Board, especially the few long-serving independent non-executive directors, our succession plan is proceeding well. It is an ongoing effort and so there is not yet a definite end date. Nevertheless, the key elements are being put in place.

Hang Lung is over 56 years old and we have had only four managing directors – the first being Mr. Thomas T.T. Chen who assisted our founder and first Chairman Mr. T.H. Chan. Upon the death of the latter in 1986, Mr. Chen became Chairman; then Executive Director Mr. S.S. Yin was made Managing Director. I took over the chairmanship in January 1991 and Mr. Yin soon became Vice Chairman. Then Finance Director Mr. Nelson Yuen was promoted to Managing Director until his retirement in 2010. Thereupon Mr. Philip Chen joined the group succeeding Mr. Yuen.

History has shown that our leadership in the Company has been very stable. Retirements were mainly due to age or health reasons. Philip has proven to be a pivotal figure in the Company's history – he has led the effort to greatly enlarge and strengthen our management team. The need came from the fact that in the past few years, we have completed the construction of 1.8 million square meters of world-class commercial space on the Mainland. Since we hold all such properties long-term, the property management team becomes critical to ongoing success.

Let the numbers speak. Since 2010, our headcount has almost doubled. Rental revenue from the Mainland grew from some HK$2.5 billion to over HK$4.4 billion. In Hong Kong, the numbers are respectively HK$2.9 billion and HK$3.9 billion. This means for the Group, we have grown our total recurring income from about HK$5.4 billion to over HK$8.3 billion in seven years. Profit therefrom has also advanced strongly.

In the coming few years, I expect rental turnover to rise further. It will come mainly from two sources, both of which will take place on the Mainland – organic growth through rising rents and lowering expenses, and the addition of new commercial facilities. Whereas the program for the latter is quite set, barring new projects, how much organic growth we can see will depend to a good extent on the recovery of the Chinese economy generally and its retail sales specifically. The performance of the luxury sector will be of particular significance to us.

Six months ago I voiced some optimism especially as it relates to the luxury goods sector. Today I am slightly more positive about the future. Recovery will not be abrupt but hopefully it will be sustainable.

Our shareholders may be concerned over the geopolitical and geoeconomic conditions of the world and their impacts on China. I refer you to my letter also of today to shareholders of our subsidiary Hang Lung Properties. There I devoted considerable time to analyzing the situation. Briefly put, I am not unduly worried about U.S.-China relations, arguably the world's most important bilateral relationship. If correct, then there will be a relatively peaceful environment for China's economy to develop further. In fact, all things point to an increased consumption in China which is good for our business.

To prepare ourselves for the future and with management succession in mind, your Board has invited Mr. Adriel Chan, age 34, to become an Executive Director, the position I held before becoming Chairman 26 years ago. Raised in Hong Kong until high school graduation, Adriel received his tertiary education at the University of Southern California. After working briefly in New York City for a not-for-profit organization and pursuing Chinese language studies at Peking University in Beijing, he joined KPMG, the auditing and consulting firm, in Shanghai. Later he worked for HSBC, also in Shanghai, before joining Hang Lung there in 2010. In 2012, he was transferred to the Hong Kong headquarters and has been working under Philip since. Adriel holds an EMBA from the Kellogg School of Management at Northwestern University in the U.S. and the Hong Kong University of Science and Technology.

In his undergraduate days, Adriel had already shown an interest in business. The 12 working years thereafter should have prepared him well for a career in the commercial world. He is capable of strategic thinking as well as operational management. Common sense, good judgment and excellent interpersonal skills are his hallmarks.

Ideally, Adriel should only be the first among a few more new executive directors. Nevertheless, your Board should always be comprised of a majority of non-executive directors, especially independent non-executive directors. It is my firm belief that the British board structure is in general superior to that of the United States. The model we have followed and will continue to follow is one which is basically British but with certain elements borrowed from the United States. Let me explain in a simplified form.

In a typical American publicly listed company, the chairman of the board of directors is an executive and is usually also the chief executive officer (CEO). The chief financial officer may or may not serve on the board. As such, a board of 15 members will likely have 13 or 14 non-executive directors, or they call "outside directors". If the one or two executive members want to cheat the board, it is relatively easy. A case in point is Enron which I knew well.

In a British board, again say of 15 members, it is most likely comprised of 9 to 10 non-executives and 5 or 6 executives. The opportunity for the former and larger cohort to interact with senior executives is far more than the American model. After all, legally speaking, both groups have equal per-person rights – one director one vote on the board. They are, in this sense, colleagues or equals. This facilitates the gaining of broader knowledge of the company on the parts of the non-executives, hence they can do a better job overseeing and strategizing for the firm.

Equally significant is the fact that it is far more difficult for the 5 or 6 executives to collude and cheat the non-executives. The tragedy of the likes of Enron is less likely to happen. Given this, the British model has superior aspects which can help avoid some of the serious ills of the American structure.

Unlike in the U.S., the board chairman of a British firm is usually a non-executive. How much time the person spends on company affairs differs from case to case. To my knowledge, it usually ranges between two to four full days per week. Whatever the case, the smooth working relationship between the non-executive chair and the CEO becomes critical. If amiss, the business will suffer. This differs from the U.S. model where the same person more often than not assumes both positions. Perhaps the American psyche is less adept at sharing power.

It is worth mentioning that from my experience, decisions of a British board are made primarily by the non-executives. The reason is simple: proposals brought to the full board come mostly from the management, so in most cases, the executives have all agreed beforehand. What is left to be done is for the outside directors to decide for or against the proposal.

There is yet a hybrid form of board governance which is perhaps more fitting to many Asian companies, where there is a majority or otherwise dominant shareholder such as the founder's family. Until not too long ago, some British companies such as HSBC practiced that. Namely, it is the British model described above except that the chair is also an executive. This is exactly what we follow.

On many occasions, I have written or otherwise spoken up regarding the viability if not the advantages of publicly listed companies that have a dominant shareholder. As long as the external regulatory environment is rigorous in construct and in enforcement like in Hong Kong, the presence of such a shareholder can be highly desirable. The family can and usually will take a long term view of the business, thus creating sustainable shareholder value. Many enlightened institutional investors in the West have of late become very concerned over the short-termism of companies and of institutional investors.

The Asian way, which is usually a board with a controlling shareholder – not that Asians have a monopoly on it – can in fact effectively take care of the problem. A major shareholder can hardly be introduced where it does not exist, but if a company already has a major shareholder, it is advisable to not force it to change. The West does not have a monopoly on good governance, and neither does Asia on bad governance. Just make sure that external regulations are appropriately rigorous.

In companies with a major family shareholder, it is understandable why a member of the clan should want to serve as the board chair. After all, the family has the most to gain or lose. It is useful if this person has had executive experience in the company so that he or she can be a more effective chair.

In this top post, this person will likely focus on strategy and board communications, leaving the day-to-day management of the company to the CEO. Either one or both of them can be the public face. Whereas the day-to-day operational decisions are left to the CEO, on critical issues, which do not require board approval, the two will jointly decide, with the chair having the final vote.

For this to work smoothly, the top two executives must respect one another. It is very important for the chair to be self-enlightened and leave plenty of room for the CEO to manage the company. Otherwise, why pay for an expensive CEO if the chair has no intention to cede considerable power? And which competent CEO will agree to the job when he or she has the responsibility but not the authority? The company might as well collapse the two positions into one.

At Hang Lung, we have satisfactorily practiced this model for half a century. I see little reason to change. The West, especially the Americans, have a tendency to advocate one-size-fits-all. What is good for me must also be good for you. It is ironic that a country like the U.S. which leads the world in diversity to have so little respect for – or ability to respect – differences including cultural ones. At the same time, many Western systems are increasingly showing serious weaknesses.

The investment community should allow experimentation as long as they meet the basic standards of good governance, such as the protection of minority shareholders, and transparency. The fact that over the past decades, your Company has repeatedly been chosen by the investment community as the best in corporate governance for our sector, is perhaps a testament that our model works well.

Before concluding, let me return to the more immediate concerns of all shareholders – our market. Although improving, the mainland Chinese economy is not yet completely out of the woods. Personal consumption may improve further in the coming months, and if so, we will all be happy. But irrespective of the external environment, I expect our retail properties outside of Shanghai to continue to improve in terms of operational efficiency. Doubtless this will one day translate to higher rents.

Our two Shanghai malls may have a divergence of performance. The luxurious one, Plaza 66, should continue to trade well, while Grand Gateway 66 may slow down a little due entirely to the Asset Enhancement Initiatives that is just starting. Almost 30% of the space will be taken out of service, and no rent increase in the remaining space will be able to compensate for the temporary loss of revenue. This is nevertheless necessary for the long-haul and we will do our best to minimize the negative impact.

Our offices outside of Shanghai should continue to fill up nicely at acceptable rents. This will help the malls beneath as it brings additional footfall.

Our construction team will remain very busy. Spring City 66 in Kunming and Heartland 66 in Wuhan are both at the stage of superstructure erection. We have experienced some delays in both cities and we will do our best to catch up as much as possible.

The second office tower at Center 66 in Wuxi as well as the hotel conversion on the top of the office skyscraper at Forum 66 in Shenyang will proceed as planned. We are also in discussion with the Wuxi government on the transfer of the land next to our existing site. That plot was purchased soon after the one on which now stands Center 66.

Our effort to add to our Mainland land bank will continue. It is always difficult to predict when success will strike, but we are hopeful. As always, we will concentrate our search on economically strong tier-two cities.

Hong Kong's economy will move along with little excitement except that land prices are highly bidded up by Mainland companies. This has effectively dashed our hope for land acquisition in the foreseeable future.

I do not yet see rousing retail sales returning to our home city. Maintaining rental growth rates of the recent past is all we can hope for. Frankly it will be challenging.

With luck we will sell a few more of the semi-detached houses on Blue Pool Road. As the market knows, we will only part with them when the price is deemed attractive. As to the rest of our portfolio, it is likely that it will be sold out this year. Profit is again expected to be satisfactory.

Whether total profit will surpass that of last year will depend on the amount of properties sold. Units at The Long Beach sold last December but with Agreements for Sale and Purchase signed this January will only be recorded in the present period.

In the long run, we will have to rely on rental income for our bottom line increase. While our Hong Kong portfolio provides stability, the Mainland is where growth will come from. It will take time but the future is bright. I am excited about this prospect.

A postscript: this semi-annual letter is traditionally meant for shareholders and potential shareholders. However, it is also for our staff, particularly this year's writing. It is important that they know our history and the market in which we are a part. Properly reading history is the only way to predict the future. It is also my hope that while reviewing the happy – and at times not so happy – path that the Company has trodden, we will be reminded of the values and corporate culture that we must hold dear in order to continue to thrive. Ours is a company which, behind all our hard and soft assets, has a soul which animates all.

Ronnie C. Chan
Chairman
Hong Kong, January 26, 2017


ROLEX
SUMMER
Blooms
SUMMER
Blooms

Collaboration

An individual power can be enhanced to its maximum efficiency only in collaboration with others. Hang Lung embraces people equipped with experience, skills and knowledge, and imbued with the spirit of "We As One" so that the strength of the whole is greater than the sum of its parts, and as a result everyone achieves more.

Review of Operations

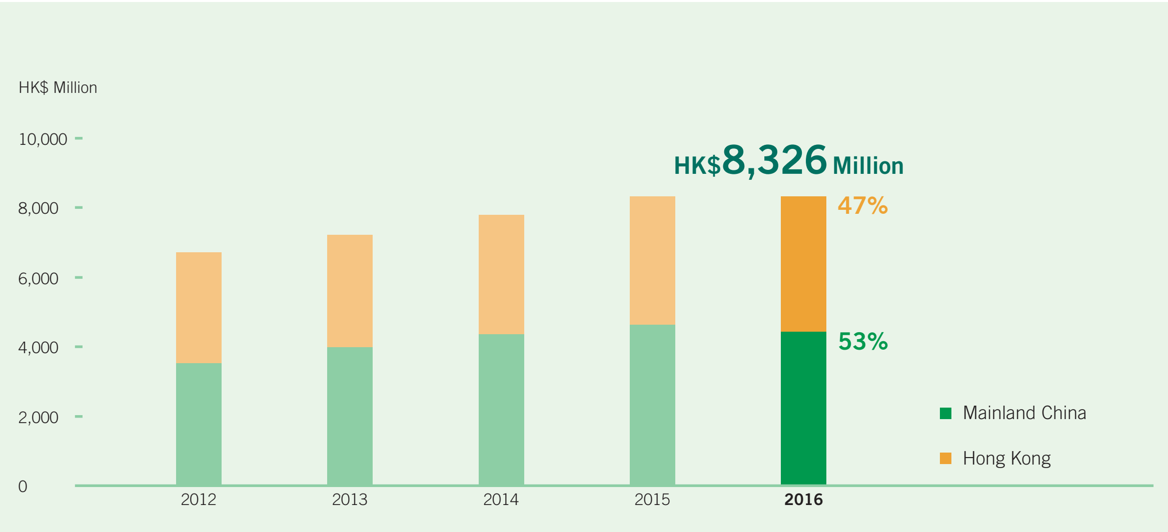

Shenyang
• Palace 66
• Forum 66
Dalian
• Olympia 66
Tianjin
• Riverside 66
Jinan
• Parc 66
Wuxi
• Center 66
Wuhan
• Heartland 66
Shanghai
• Plaza 66
• Grand Gateway 66
Kunming
• Spring City 66
Hong Kong
• Fashion Walk
• Central Portfolio
• The Peak Galleria
• Kornhill Plaza
• Mongkok Portfolio
• Amoy Plaza

Business Overview

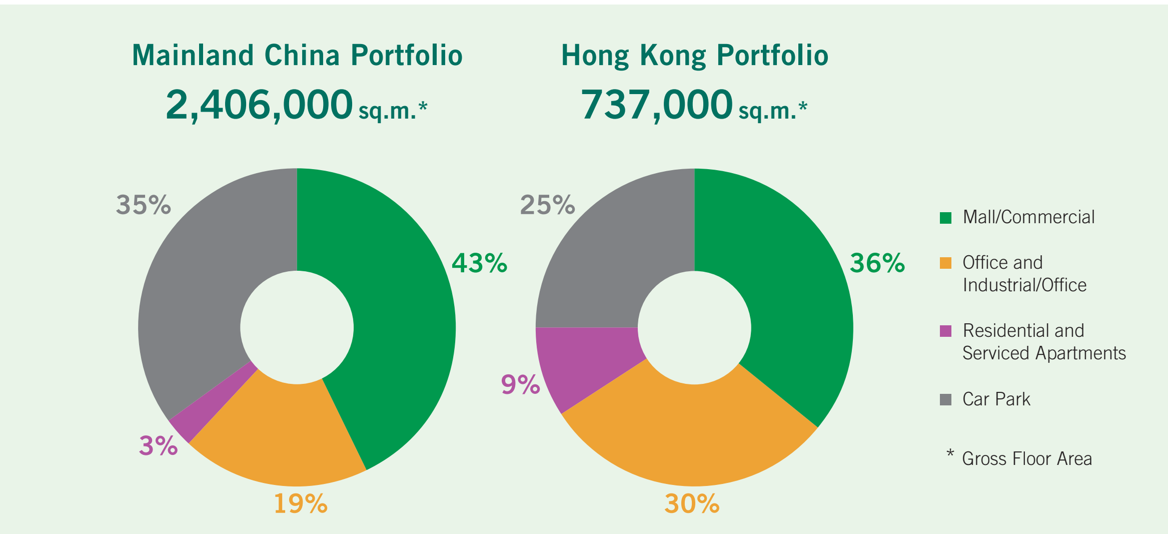
Our core property leasing business across Hong Kong and the Mainland continued to be resilient and delivered steady growth for shareholders against the backdrop of a challenging market.

During 2016, Hong Kong and the Mainland continued to experience a market correction and shifting consumer demand. In the major shopping districts in Hong Kong and Tier 1 cities on the Mainland, store closures, vacancies and delayed openings by major brands were commonplace.

PROPERTY LEASING REVENUE



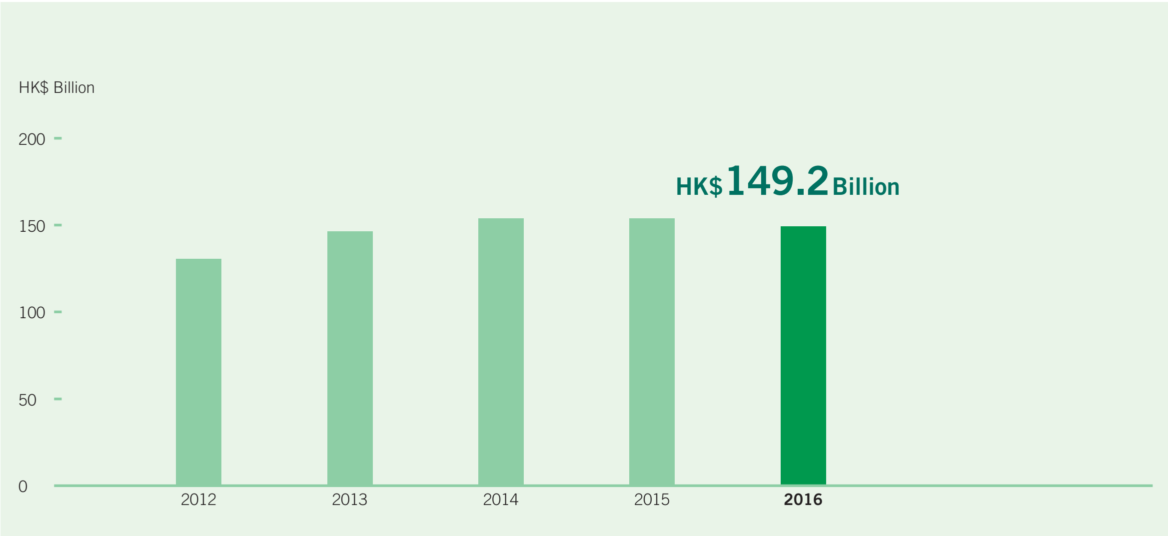
AREA OF INVESTMENT PROPERTIES



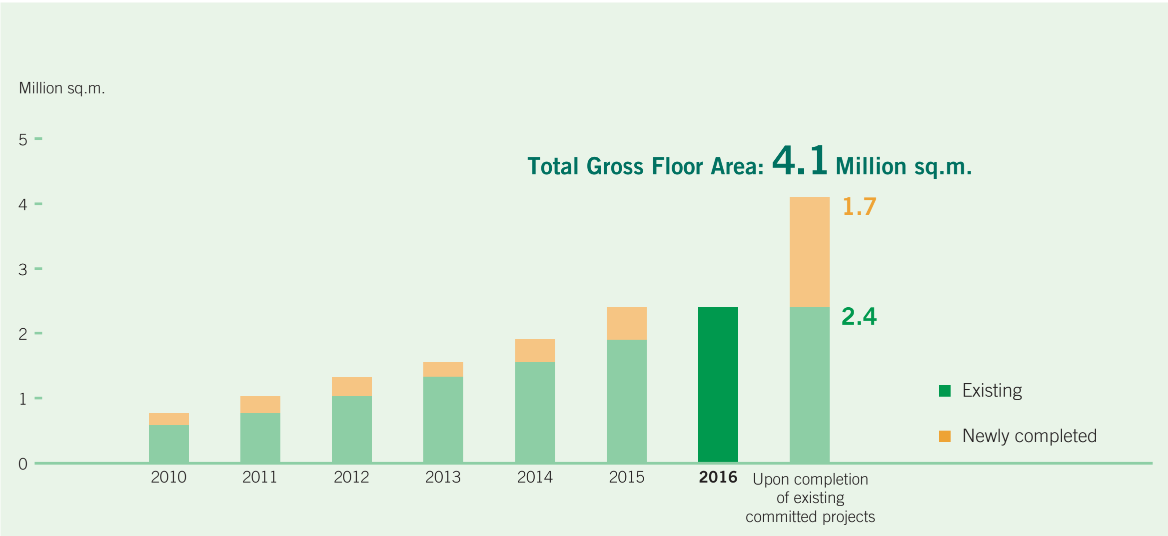
For the financial year ended December 31, 2016, total revenue of our leasing properties in Hong Kong and on the Mainland stayed flat at HK$8,326 million, or up 3% when excluding the 6% RMB depreciation effect during 2016. Benefitting from asset enhancement initiatives and tenant mix optimization, revenue of our Hong Kong leasing portfolio advanced 5%. Revenue of our investment properties in mainland China, which accounted for 53% of total leasing revenue of the Group, recorded a moderate growth of 2% in RMB terms, mainly driven by contributions from the new shopping mall in Dalian and the office tower in Shenyang.

Total operating profit was flat at HK$6,129 million. Overall rental margin was 74%.

VALUATION OF INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT AS AT DECEMBER 31



AREA OF INVESTMENT PROPERTIES IN MAINLAND CHINA



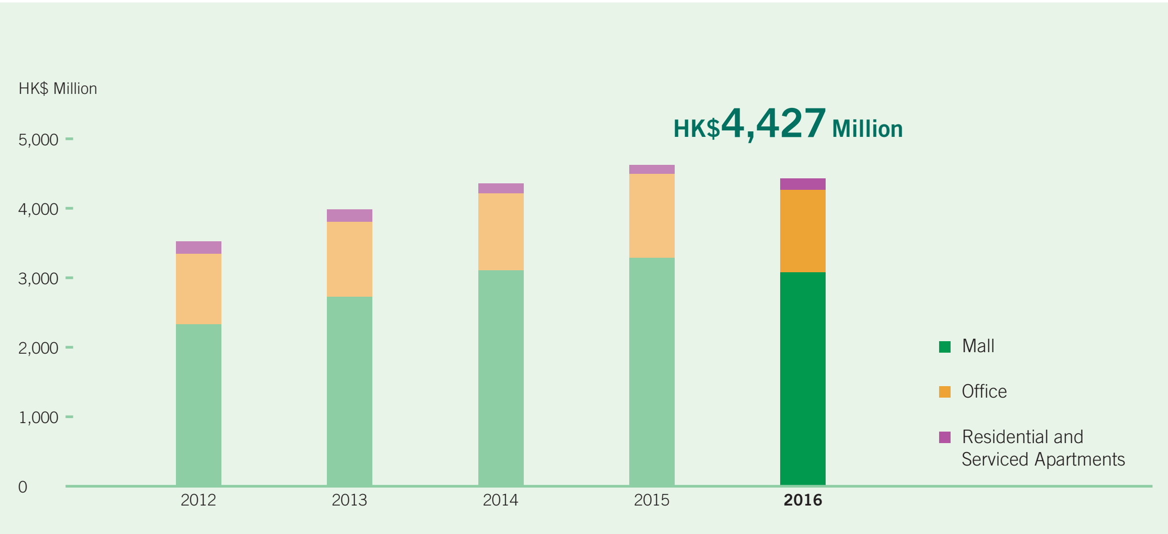
Mainland China Property Leasing

Revenue of the entire mainland China leasing portfolio was up 2% to RMB3,785 million, mainly driven by contribution from the new Dalian Olympia 66 mall and higher revenue from the Shenyang Forum 66 office tower. Overall margin was 64%.

Our eight shopping malls in mainland China generated RMB2,633 million in rents collectively during 2016, stayed flat year-on-year. The contribution from the new Dalian Olympia 66 mall was largely offset by rental interruption to the Shanghai Plaza 66 mall due to renovation works and negative rental reversions at some malls outside Shanghai.

Rental income of our entire office portfolio in mainland China increased 5% to RMB1,015 million, mainly driven by higher contributions from the new office towers in Wuxi and Shenyang.

REVENUE OF MAINLAND CHINA PORTFOLIO



SEGMENTAL ANALYSIS OF MAINLAND CHINA INVESTMENT PROPERTIES

For the year ended December 31

	Rental Revenue (HK$ Million)		Occupancy Rate (at year-end)(%)	
	2016	2015	**2016**	2015
Mall	**3,079**	3,287	**83%**	81%
Office	**1,187**	1,203	**78%**	77%
Residential and Serviced Apartments	**161**	135	**92%**	81%
Total	**4,427**	4,625	**82%**	79%

Revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai rose 26% to RMB137 million after adopting a different marketing strategy. Occupancy rate was up 11 points to 92% by the end of 2016.

Our Mainland property leasing portfolio has had to contend with the effects of a mixed economic performance and a general slowing of growth across China. The weaker Yen and Euro encouraged outbound spending to some degree, which contributed to a sluggish local retail landscape with a more selective attitude to spending, particularly on premium goods.

The oversupply of retail properties in the market contributed to a fiercely competitive environment. Across the board our shopping malls faced a significantly more challenging year than in 2015, as most brands reoriented their business strategy from expansion to consolidation. On a more positive note, VAT (Value Added Tax) reforms implemented in May 2016 went some way to making luxury retailers adjust their global pricing schedules. The adjusted price point for the RMB will help to retain spending in the local market particularly on luxury goods and provide a platform for sustainable sales growth in the long term.

The office leasing sector faced its own headwinds. Office demand from multinationals has shifted to the relatively decentralized locations that can provide office premises at a lower cost. On the other hand, domestic companies, which would have been the main source of demand in the market, were depressed by the prevailing local economic downturn which has impacted all of China, particularly the northeast.

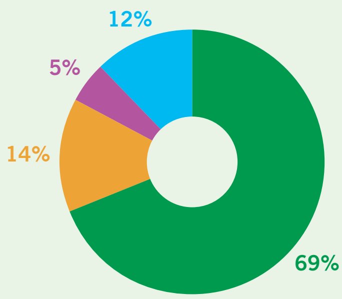
Given this negative backdrop, the average rental for Grade A office space has remained stable for the most part, with some variation by subsector.

BRIEF ON PROPERTIES

PLAZA 66, SHANGHAI

Renowned as one of the most successful commercial complexes in mainland China, Plaza 66 comprises a five-story high-end shopping mall, housing renowned luxury goods and fashion brands, and the two prestigious Grade A office towers, soaring 66 stories and 48 stories, respectively, attract prominent local and international businesses as tenants. The entire complex has become one of the city's most admired landmarks.

Commercial Segment Distribution (by Leased Floor Area)



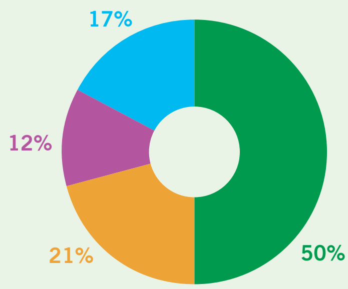
GRAND GATEWAY 66, SHANGHAI

Located at the commercial hub of Xujiahui, Grand Gateway 66 is an interconnected complex comprising a shopping mall, an office tower and residential and serviced apartments. Grand Gateway 66 has a unique and contemporary style that sets it apart from similar developments in the city.

The shopping mall of Grand Gateway 66 offers unmatched opportunities for business and leisure. With its superb location above the Xujiahui station, Grand Gateway 66 is a true one-stop shopping complex in Shanghai.

The office tower of Grand Gateway 66 houses prominent local and international businesses as tenants. Serviced apartments at Grand Gateway 66 comprise of three buildings offering 629 suites for lease.

Commercial Segment Distribution (by Leased Floor Area)



- Fashion & Accessories
- Food & Beverage
- Lifestyle & Entertainment
- Others

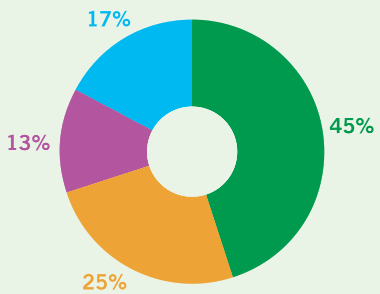
Key Statistics

		Plaza 66, Shanghai	Grand Gateway 66, Shanghai
Gross floor area (sq.m.)	Commercial	53,700	120,188
	Office	159,555	67,200
	Residential and Serviced Apartments	N/A	83,200
Number of car parking spaces		804	835
Occupancy rate (at year-end)	Commercial	93%	96%
	Office	95%	89%
	Residential and Serviced Apartments	N/A	92%
Number of shopping mall tenants		126	356

PALACE 66, SHENYANG

The magnificent Palace 66 shopping mall is located right in the vibrant financial and commercial heart of Shenyang. Situated on Zhongjie Lu, a famous commercial street in Shenhe district, Palace 66 houses an alluring blend of international and local brands. These encompass fashion and accessories, lifestyle and entertainment, beauty and cosmetics, as well as quality restaurants.

Commercial Segment Distribution (by Leased Floor Area)



109,307
N/A
N/A
864
93%
N/A
N/A
213

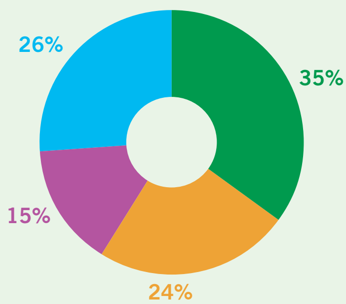
FORUM 66, SHENYANG

Forum 66 sits ideally on Qingnian Da Jie, the Golden Corridor thoroughfare that runs through the city center, and is close to Shenyang's best known landmarks.

The shopping mall at Forum 66 houses a number of world-leading high-end brands that have chosen Forum 66 as the home for their first stores in Shenyang. The Metro line No. 2 offers direct access to Forum 66 from the station, providing an additional boost to traffic flows to the project.

The office tower has 88-story, soaring more than 350 meters into the city skyline. It is a rare and superior high-rise building in Shenyang and is a magnet for renowned multinational companies.

Commercial Segment Distribution (by Leased Floor Area)



101,960
144,677 (excluded hotel)
N/A
2,139
84%
67% (low- and mid-zones)
N/A
110

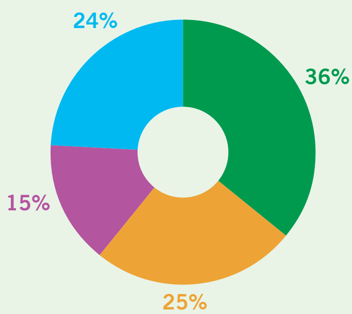
BRIEF ON PROPERTIES

PARC 66, JINAN

Situated on Jinan's Golden Avenue, Quancheng Lu, Parc 66 introduced a number of international brands launched for the first time in the Jinan market. The shopping mall is a most welcome lifestyle destination for Jinan residents with its cinema, supermarkets and cafés.

The architectural design of Parc 66 blends well with the surrounding environment. Taking its theme from the nearby lakes and springs, Parc 66 embodies a flowing design, an undulating roof, green spaces and curved façades. Its two triangular-shaped shopping buildings are linked by an undulating bridge, the Dragon.

Commercial Segment Distribution (by Leased Floor Area)



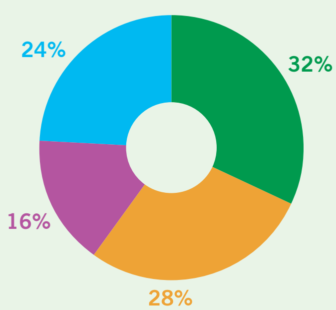
CENTER 66, WUXI

Situated ideally at the heart of Wuxi's Liangxi central business district on Renmin Zhong Lu, Center 66 (Phase 1) is a commercial complex currently comprising a shopping mall and a Grade A office tower.

The shopping mall houses a selection of global brands, food & beverage outlets as well as lifestyle offerings.

The 52-story office tower of Center 66 began operation in October 2014 and is home to a number of international and domestic leading corporations.

Commercial Segment Distribution (by Leased Floor Area)



- Fashion & Accessories
- Food & Beverage
- Lifestyle & Entertainment
- Others

Key Statistics

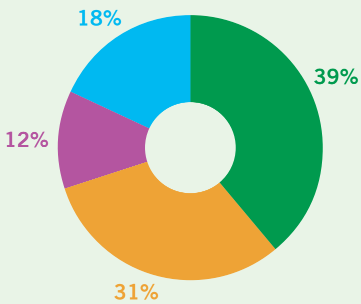
		Parc 66, Jinan	Center 66, Wuxi
Gross floor area (sq.m.)	Commercial	171,074	104,906
	Office	N/A	85,438
	Residential and Serviced Apartments	N/A	N/A
Number of car parking spaces		789	1,292
Occupancy rate (at year-end)	Commercial	91%	80%
	Office	N/A	65%
	Residential and Serviced Apartments	N/A	N/A
Number of shopping mall tenants		313	167

RIVERSIDE 66, TIANJIN

Located strategically in the heart of Tianjin's Haihe central business district, Riverside 66 houses an extensive tenant list encompassing an alluring mix of internationally renowned fashion brands, food & beverage outlets and lifestyle retailers. A number of tenants have also chosen Riverside 66 as the home for their first stores in Tianjin.

The unique and eye-catching architectural design of Riverside 66 extends approximately 380 meters from east to west amid the most hectic and bustling pedestrian zone in Tianjin.

Commercial Segment Distribution (by Leased Floor Area)



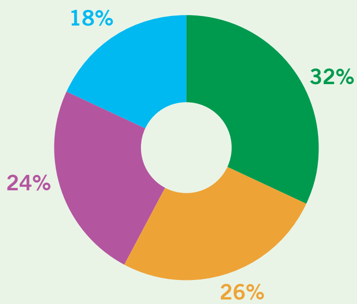
152,831
N/A
N/A
800
82%
N/A
N/A
261

OLYMPIA 66, DALIAN

Centrally situated on Wusi Lu, one of the most prominent commercial thoroughfares in the city of Dalian, Olympia 66 is Hang Lung's 8th commercial project on the Mainland. This world-class building boasts a unique architectural style, with its grand curving geometric design reflecting the concept of the auspicious Chinese Tai Chi twin dancing carps.

With a retail sales area of over 220,000 square meters, Olympia 66 is Hang Lung's largest shopping mall to date. It provides diversified choices of shopping, dining and entertainment, attracting a number of international brands to debut and open their flagship and concept stores in Dalian.

Commercial Segment Distribution (by Leased Floor Area)



221,900
N/A
N/A
1,214
66%
N/A
N/A
259

PLAZA 66 – SHOPPING MALL

The ongoing asset enhancement initiatives at Plaza 66 have seen an expansion of its customer base and strengthened customer loyalty through a trade-mix refinement strategy, the implementation of a VIC (Very Important Customer) program, and the successful execution of a diverse range of promotional campaigns. The refreshed Plaza 66 has provided an exciting new backdrop for the upgrading of the mall's exclusive upscale dining, retail and lifestyle options. These include the expansion of Bottega Veneta's and Prada's flagship stores and the arrival of Saint Laurent Paris, Zimmerli and Pure Yoga. This has drawn new customers from the burgeoning middle and elite classes, strengthening the mall's unique position as the Home to Luxury. Two major promotional campaigns in the course of the year also contributed to increased footfall. The My Style My Way campaign, sponsored by various retail brands in the mall, and Santa's Atelier featuring a giant outdoor Christmas tree and lighting ceremony in partnership with Cartier, gained popular acclaim. The upgrading work of the new Basement 1 of the mall was completed in September with the handover of some 30 new shops. These included Delvaux, Loro Piana, Dior Homme, Balmain, Mikimoto, Brunello Cuccinelli, Etro, Bally, Krizia, Moncler, Dsquared, Mulberry, Damiani, Vertu, Jaeger-Lecoultre, Chopard, Panerai and Hublot, together with the expansion of Ermenegildo Zegna's flagship store from Levels 1 and 2 into the new basement. Of the brands in the basement, Chiara Ferragni and Valextra are opening their first stores in China while Golden Goose Deluxe Brand, Mr. and Mrs. Italy and Krizia are opening their first stores in Shanghai. Around 70% of the new shops opened for business before Chinese New Year 2017.

The major asset enhancement program of Plaza 66 has been largely completed

Above ground, 95% of the enhancements were completed in the meantime. Looking forward, the introduction of more luxury "best of breed" stores will continue along with the tailoring of the multi-dimensional offerings on different floors to further enhance the unique and leading position of Plaza 66 in Shanghai. Attention to customer loyalty will continue with the opening of the new VIC Lounge in the 3rd quarter of 2017 and the offering of privileges and exclusive services to VICs. Tenant-mix will also continue to be reviewed, with the addition of more upscale dining options. With the completion of the remaining enhancement works at Levels 5 and 6 by the 3rd quarter of 2017, all the physical changes will be in place for an exciting new chapter of growth for the mall.

PLAZA 66 – OFFICE TOWERS

The overall performance in office leasing has been stable despite the competitive environment and tight controls on the P2P industry. The merging of the Jing'an and Zhabei districts has enriched the trade varieties in the newly formed district by attracting more companies from further afield. The year has seen Plaza 66's anchor tenant KPMG expand and upgrade. Among new tenants acquired during the course of the year, the well-known financial institution Guotai Junan International is a significant gain. The upgrading and renovation of Office Tower 1, including the main lobby area, lifts, and most floor lobbies, were completed during the course of the year. Asset enhancement work for Office Tower 2 commenced in the 4th quarter of 2016 and is earmarked for completion by the end of 2017.

A number of international brands open their flagship stores and specialty shops at Plaza 66

GRAND GATEWAY 66 – SHOPPING MALL

Despite retailers' expansion plans being cautious amid the soft market sentiment, Grand Gateway 66 remains one of their top priorities as they establish their presence in the market. That explains why Omega, Mont Blanc, Coach, Loewe, Weekend by Max Mara, IRO, Tesla, Timberland, Boy London, adidas originals, and Bang either opened their doors in the mall or expanded and revamped their premises during the year.

Grand Gateway 66's marketing events draw significant media attention and public support

Pop-up stores like IWC, Qeelin, Tumi and Kingbaby along with marketing events played an important role in boosting the public profile of the mall and generating significant increases in footfall and sales. The Shanghai Disney Themed Exhibition in April, the Shake as One event in August, and the Halloween Haunted Playground in October were successful in drawing significant media attention and public support. Grand Gateway 66 was also the proud host of celebrity movie premiers, welcoming superstar Tom Cruise, actress Cobie Smulders and renowned director Edward Zwick for the premier of *Jack Reacher: Never Go Back*, and Jackie Chan and Fan Bingbing for the premier of *Skiptrace*.

The asset enhancement works of our mall commenced in January 2017. In addition to the existing connection to the Metro Line 1, the newly approved link to Metro Line 9 will bring a significant increase of footfall to our mall. The new escalators connecting basement car parks and the mall will also greatly enhance the shopping experience of our customers. Inevitably, the substantial asset enhancement works will likely usher in a temporary drop in footfall, sales and rents in 2017. However, similar to the upgrading works in Plaza 66, the benefits of the asset enhancement, along with the upgrading of the supermarket, cinema, and the mall's food and beverage offerings, will far outweigh the short-term disruptions. The enhancements are part of a plan to raise the stature and quality of our offering to strengthen Grand Gateway 66 as the market leader.

GRAND GATEWAY 66 – OFFICE TOWER

Despite the challenging business environment, with 43% of the leased area up for renewal and a further 8% terminated early due to consolidations or business failures, the occupancy rate at the Grand Gateway 66 office tower stood at an average of 93% during the year. This was attributable to the expansion and renewal of existing high-profile tenants including Uniqlo, BBDO, West Rock, and NIVEA, and the recruitment of reputable new names such as SAS, Qantas and Verystar. Taking advantage of the lull in market sentiment, the asset enhancement initiative at the office tower commenced in October 2016 and will be completed in phases by mid-2018. Renovation of the lobby is targeted for unveiling in mid-2017. We expect these improvements will position Grand Gateway 66 as a premium choice for big-name businesses when the market rebounds.

GRAND GATEWAY 66 – SERVICED APARTMENTS

Revenues grew by 26% in the serviced apartments this year amid the subdued demand for such top-tier residences as multinationals continued to reduce their expatriate posts and housing budgets. This decline in demand was somewhat mitigated by our leasing strategy designed to attract more interest from wealthy local entrepreneurs. In 2017, we will continue to upgrade our facilities, adopt flexible long- and short-term leasing strategies and improve rental margins by tapping into short-term leases with higher rent.

PALACE 66

Careful management of the trade and brand mix over the past few years has proven successful, with the mall maintaining its stable upward trend in revenue growth and achieving a respectable increase in operating profit despite keen competition and a sluggish economic environment. The addition of fresh and trend-setting brands such as Armani Jeans, Guess, Avirex, fingercroxx, Sisyphe, Pepper Lunch and Wise Bro Dessert drew more patrons to the mall, while marketing events including i0 Girls and Summer Theatres piqued public interest and achieved double-digit gains in sales during the event cycles. The additions already confirmed for 2017 are Les Benjamins and Superdry on Level 1.

The i0 Girls marketing event piques public interest and achieves a double-digit gain in sales during the event cycle

FORUM 66 – SHOPPING MALL

Marking its 4th anniversary with a much celebrated Fashion Week, the mall generated significant footfall and sales with its Anniversary Fashion Show and Summer Bazaar marketing events. Among the new introductions to the trade mix have been designer and contemporary luxury, cosmetics, fitness and child education brands. Establishing their sole retail presence in Shenyang were youthful fashion and accessories brands such as Trussardi, Nicolas Andreas Taralis, By Creations, bebe and Reoar Kiss. Throughout the year, our marketing team has leveraged our social media presence on platforms such as WeChat and Weibo to create exciting new inroads into viral marketing. In 2017, Forum 66 will establish a dedicated VIC team with an eye to providing superior and unmatched services to our high-end customers.

Forum 66 celebrates its 4th anniversary with a fantastic Fashion Week

Forum 66 has achieved satisfactory growth

FORUM 66 – OFFICE TOWER

Recognized as a landmark with premier facilities, the office tower at Forum 66 has outperformed its competitors and achieved satisfactory growth despite fierce competition. Anchor tenant Bank of China expanded its occupancy from four to six floors, making its Liaoning Province headquarters a staggering 17,000 square meters in size. Other distinguished tenants including Deloitte, Ping An Securities and Generali Insurance also prepared to expand their offices at Forum 66 this year. In addition, Forum 66 welcomed such esteemed names as ARCADIS, APP and C-trip as new tenants during the course of the year. Building on the successes of 2016, steady growth is expected in the year ahead with our team mobilized to recruit more prominent multinational and domestic firms so as to secure long-term sustainability.

Parc 66 has maintained its favorable rental income figures and occupancy rates

PARC 66

Parc 66 has maintained its favorable rental income figures and occupancy rates in the year under review amidst the prevailing economic conditions, which have hampered its competitors. With the mall not being immune to external factors, some large retail units were forced into early termination, but suitable replacements were successfully recruited. New anchor tenant Apple opened its doors in May. Pandora, Les Nereides, apm.mc and Trussardi also entered as the mall extended its reach into contemporary luxury accessories and formed new retail clusters. The mall's food and beverage offering was also reorganized with the integration of popular brands such as Godiva and

Hui Lau Shan. Among the mall's existing tenants, 16 completed upgrading works in 2016 and three others have expressed their intention of following suit in 2017 to create new, more exciting shopping experiences. The mall has fostered a number of successes in 2016 with top-performing tenants including MO&Co., JNBY, Lily and Peoleo achieving higher retail sales and contributing higher sales-based rents as a result. The mall has carried out two exciting marketing events that boosted footfall and sales and generated extensive social media chatter. These were the T-Rex Revealed – The Augmented Reality Experience dinosaur exhibition and the Cool Bear event.

Looking ahead to 2017, Parc 66 is committed to maintaining its leadership position amidst intensifying competition from new malls opening in the area. The focus will be on brand upgrading with the introduction of additional contemporary international fashion brands, ladies wear boutiques, high-end lifestyle outlets and popular chain restaurants. COS, Theory, Rose Only, Thomas Sabo and Y3 are among the names already committed to joining Parc 66's list of celebrated retailers in 2017.

CENTER 66 – SHOPPING MALL

The Teddy Star Show brings to Wuxi over 500 cute teddy bears in adorable costumes

The Center 66 shopping mall continues its upward growth trajectory with sales by luxury brands situated at Level 1 growing steadily as the year progressed and the Basement 1 shopping area gaining popularity. The year under review saw the addition of prestigious brands Loewe, Giada, Pandora and Vacheron Constantin to strengthen the mall's luxury mix, while existing tenants expanded their retail space. Growth was supported by marketing endeavors which saw the execution of two major events, the Teddy Star Show and the Halloween Haunted Playground. The launching of creative, targeted marketing campaigns will continue in the coming year as the team focuses on refining the trade mix and recruiting suitable tenants for vacant retail space on the upper floors to maximize income. Among the new additions already confirmed for 2017 are internationally celebrated audio brand Bowers & Wilkins, whose store will open on Level 2, Bright Mind and Princess Ting Ballet, whose learning centers will operate on Level 3, and UK fashion brand New Look in Basement 1.

Center 66 is already engaged in recruiting multinational and domestic giants from various industries

CENTER 66 – OFFICE TOWER

The first half of the year saw lease terminations resulting from P2P turmoil, but occupancy rates rebounded in the second half with much effort dedicated to recruiting new businesses to enhance the tower's tenant-mix profile. Global financial services brand UBS was a significant acquisition, leasing two whole floors with further expansion plans for 2017. Other notable additions included Toyota Tsusho, Shiseido and Ping An Group, whose presence has helped us to establish a significant market differentiation in relation to our main competitors. Whilst the expansion requirements of the tower's existing quality tenants remain strong, there is also growing momentum for a steady increase in the occupancy rate as new tenants are drawn by Center 66's attractive qualities. The leasing team is already engaged in recruiting more multinationals and domestic business giants from various industries to diversify the tenant mix and add to the prestigious names that the tower already houses.

RIVERSIDE 66

In 2016, progress was made in consolidating the mall's positioning with strategic additions to the retail mix shoring up footfall and sales. During the course of the year, leading global technology brand Apple opened its flagship store in Riverside 66, joined later by the Xiaomi experience store. Popular fashion brands including APM Monaco, Mandarina Duck and Boy London opened their shops at the mall in 2016. In addition, Godiva, Longines and the VR (Virtual Reality) experience store also committed to starting operations in the mall in 2016. The mall's marketing events have incorporated EST (Experience, Service and Technology) initiatives including the T-Rex Revealed – The Augmented Reality Experience dinosaur exhibition, the 2nd Anniversary Celebration and the Halloween Haunted Playground, all of which were well-received by customers and helped to develop online marketing tools.

Riverside 66 has incorporated EST initiatives into its marketing events

The year of 2017 will see another cycle of lease expirations among fashion brands occupying a significant proportion of the mall's leased area. The mall's main task is to enhance its prime positioning within Tianjin and to continue improving its occupancy rate. To achieve this, priority will be given to enriching the current contemporary luxury and international fashion offerings, as well as to broadening the trade mix with the addition of new entertainment and lifestyle brands.

OLYMPIA 66

Olympia 66 was launched on September 9, 2016. In addition to receiving the Gold Award in LEED, Olympia 66 has been named as the sole commercial property providing the best barrier-free environment and facilities in Dalian. In addition to the WeChat App and indoor location tracking services, the mall provides a parking tracker function with mobile payment options.

Although opening at a time of subdued retail sentiment, Olympia 66 has all the fundamentals required to lift it from its slow start once the political instability in Dalian, which has affected brand confidence in the local market, subsides. Olympia 66 has already unveiled a number of exclusive, first-in-town brands including Trussardi, Moschino, COS, Edimass, PALACE Cinema, Blue Ice ice-skating rink, Coterie and G Givenchy. Additionally, EST initiatives integrated seamlessly into a program of events to celebrate the grand opening and the subsequent Cool Bear marketing event have excited consumers and established an excellent level of customer engagement on which to build in the coming year. As the mall springs further into life with exciting brands such as Hearts On Fire, Tommy Hilfiger, Aape, Fingercroxx, Fred Perry, Thomas Sabo and Sisyphe Bookstore on Level 1, and CK Jeans on Level 2, Olympia 66 will carve out its position as the city's premier shopping and entertainment nexus. Meanwhile, the mall's marketing team will collaborate with tenants to build awareness of our various retail zones via multiple media channels and word-of-mouth publicity while at the same time leveraging on partnerships with credit card companies, sports and family clubs and other associations to excite interest in all that the mall has to offer the local community.

Olympia 66 will carve out its position as the city's premier shopping and entertainment nexus

Hong Kong Property Leasing

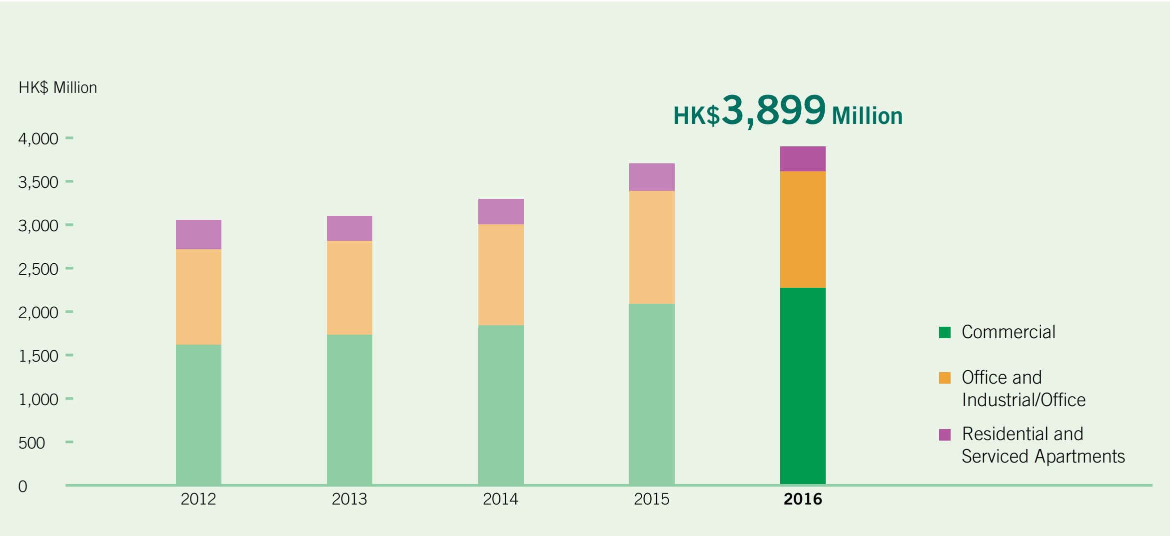
Against a backdrop of slower economic growth and sliding retail sales, the performance of our leasing properties in Hong Kong was resilient. Revenue and operating profit in Hong Kong rose 5% and 7% to HK$3,899 million and HK$3,315 million, respectively. Overall rental margin was 85%.

Revenue of the Hong Kong commercial portfolio advanced 9% to HK$2,275 million as the benefits of asset enhancement initiatives continued to flow through. Overall occupancy was 96% by the end of 2016.

Revenue of the entire Hong Kong office portfolio increased 3% to HK$1,336 million attributable to positive rental reversions.

Rental income of residential and serviced apartments decreased 8% to HK$288 million due to lower occupancy rates.

REVENUE OF HONG KONG PORTFOLIO



The performance of our commercial leasing portfolio is set against the backdrop of declining tourist arrivals which, though the numbers stabilized as the year progressed, nonetheless affected retail sales, particularly in fashion and high-end jewelry and watches. Retailer sentiment has been cautious and international brands have retreated or rationalized their operations, making the leasing environment disadvantageous for lease renewals and new lettings.

Office leasing has also been impacted by the conservative approach taken by office occupiers such as budget tightening measures and increased cost sensitivity, which have had a direct impact on demand in the sector. There is also a spill-over effect on residential leasing.

GEOGRAPHICAL ANALYSIS OF HONG KONG INVESTMENT PROPERTIES

At December 31

	Total Gross Floor Area* ('000 sq.m.)	
	2016	2015
Hong Kong Island		
Central	**51**	51
Causeway Bay and Wan Chai	**92**	92
Kornhill and Quarry Bay	**135**	135
The Peak and Mid-Levels	**46**	46
Hong Kong South	**12**	12
Kowloon		
Mongkok	**140**	140
Tsim Sha Tsui and West Kowloon	**86**	86
Ngau Tau Kok	**78**	78
Cheung Sha Wan, Kwai Chung, Tsuen Wan and Tuen Mun	**97**	97
Total	**737**	737

SEGMENTAL ANALYSIS OF HONG KONG INVESTMENT PROPERTIES

For the year ended December 31

	Rental Revenue (HK$ Million)		Occupancy Rate (at year-end)(%)	
	2016	2015	**2016**	2015
Commercial	**2,275**	2,092	**96%**	98%
Office and Industrial/Office	**1,336**	1,299	**92%**	95%
Residential and Serviced Apartments	**288**	314	**76%**	75%
Total	**3,899**	3,705	**91%**	94%

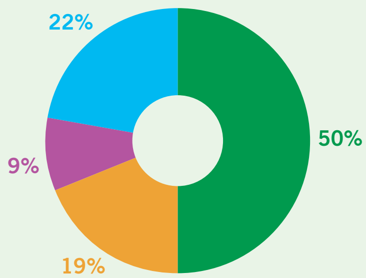
* Including gross floor area of car parks

BRIEF ON MAJOR PROPERTIES

FASHION WALK
Causeway Bay

In a unique fusion of indoor and outdoor elements at the heart of Causeway Bay and encompassing four vibrant streets – Great George, Paterson, Kingston and Cleveland – Fashion Walk is the superlative shopping destination, offering the latest trends in fashion, gastronomy and lifestyle in a magnificent setting. In addition, Fashion Walk features an exciting collection of restaurants with al fresco and indoor seating.

Commercial Segment Distribution (by Leased Floor Area)

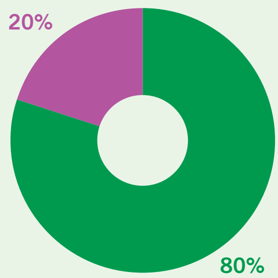


HANG LUNG CENTRE
Causeway Bay

Conveniently located in the heart of Causeway Bay, Hang Lung Centre is a retail and commercial complex with key retail and semi-retail offerings in travel, fashion wholesale and medical services. The opening of H&M's first and largest global flagship store in Asia in 2015 injects new energy and boosts the shopping ambience.

Expansion of the travel zone creates a comfortable environment for customers obtaining travel information and shopping for travel products.

Commercial Segment Distribution (by Leased Floor Area)



- Fashion & Accessories
- Food & Beverage
- Leisure & Entertainment
- Bank
- Department Store
- Others

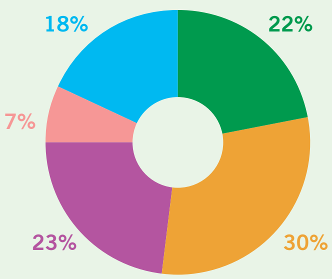
Key Statistics

		Fashion Walk	Hang Lung Centre
Gross floor area (sq.m.)	Commercial	31,072	8,777
	Office	N/A	22,131
	Residential and Serviced Apartments	7,935	N/A
Number of car parking spaces		N/A	126
Occupancy rate (at year-end)	Commercial	100%	100%
	Office	N/A	91%
	Residential and Serviced Apartments	87%	N/A
Number of shopping mall tenants		79	3

THE PEAK GALLERIA
The Peak

Located at Hong Kong's top visitor attraction, The Peak Galleria is a shopping and dining complex. It not only features a full array of local and international specialty stores, restaurants and a 3D illusion art museum but also a host of environmentally friendly facilities. Its Observation Deck at Green Terrace on L3, offering the stunning panoramic view of Victoria Harbor and the Pok Fu Lam Reservoir, is a must-visit place.

Commercial Segment Distribution (by Leased Floor Area)

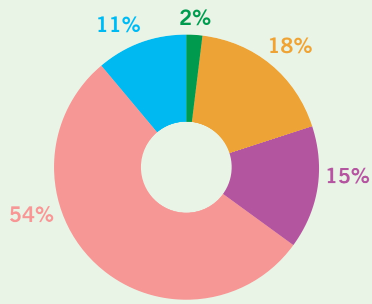


12,446
N/A
N/A
493
81%
N/A
N/A
41

KORNHILL PLAZA
Quarry Bay

Conveniently located on top of the MTR Taikoo Station, Kornhill Plaza is one of the most popular shopping hubs on East Hong Kong Island. The commercial complex houses a quality lifestyle shopping arcade, department store, serviced apartments with superior management and services, an office tower and the Kornhill Learnscape education center.

Commercial Segment Distribution (by Leased Floor Area)



53,080
10,577
35,275
1,069
100%
98%
65%
112

BRIEF ON MAJOR PROPERTIES

STANDARD CHARTERED BANK BUILDING
Central

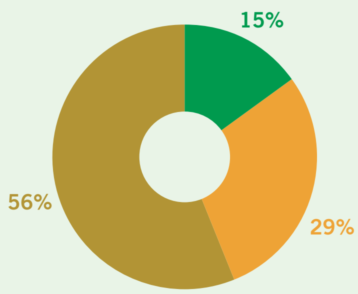
Home to Hang Lung's headquarters, the Standard Chartered Bank Building is a prestigious Grade A commercial tower in Central district. It is also the home of the first digital branch of Standard Chartered Bank, the luxury fashion brand Escada and the high-end Chinese restaurant Mott 32.

GRAND PLAZA
Mongkok

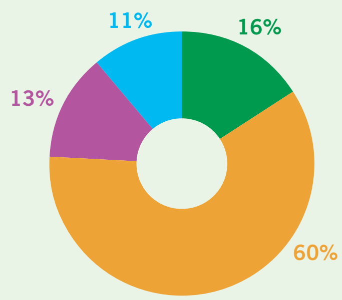
Located on bustling Nathan Road next to the MTR Mongkok Station, Grand Plaza comprises two office towers and a commercial podium with high-standard facilities. It houses renowned watch and jewelry brands, many fashion brands and restaurants targeting both locals and tourists, as well as beauty and medical centers.

- Fashion & Accessories
- Food & Beverage
- Leisure & Entertainment
- Bank
- Department Store
- Others

Commercial Segment Distribution (by Leased Floor Area) – Standard Chartered Bank Building



Commercial Segment Distribution (by Leased Floor Area) – Grand Plaza



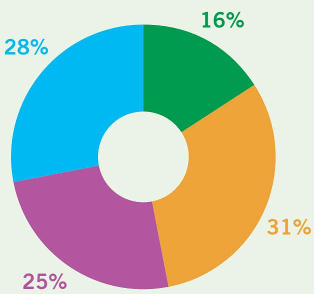
Key Statistics

		Standard Chartered Bank Building	Grand Plaza
Gross floor area (sq.m.)	Commercial	4,814	20,905
	Office	23,730	31,251
	Residential and Serviced Apartments	N/A	N/A
Number of car parking spaces		16	40
Occupancy rate (at year-end)	Commercial	100%	69%
	Office	100%	90%
	Residential and Serviced Apartments	N/A	N/A
Number of shopping mall tenants		3	26

AMOY PLAZA
Ngau Tau Kok

Conveniently located near the MTR Kowloon Bay Station, Amoy Plaza is an integrated mall in Kowloon East, comprising stores offering trendy fashions, beauty products and electronic gadgets. Together with more than 35 restaurants serving local and international cuisines, the mall offers a full selection of lifestyle experiences for nearby office workers and residents of Amoy Gardens.

Commercial Segment Distribution (by Leased Floor Area)

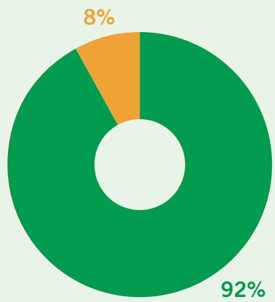


49,006
N/A
N/A
620
97%
N/A
N/A
252

GALA PLACE & PARK-IN COMMERCIAL CENTRE
Mongkok

Located in the vibrant Mongkok district, Gala Place houses the largest single-story Starbucks in Hong Kong, spanning over 4,500 square feet, as well as the triple-story H&M full-concept flagship store, the largest H&M store in Kowloon, and has become a hotspot for the trendy and fashionable. Park-In Commercial Centre houses a potpourri of diversified services and products including outdoor gear, chic fashion, skincare and cosmetics, lifestyle products, audio and digital gadgets, as well as beauty and fitness centers. Park-In Commercial Centre Carpark offers nearly 500 parking spaces, providing a convenient, one-stop shopping experience for its customers.

Commercial Segment Distribution (by Leased Floor Area)



7,454
30,205
N/A
478
100%
85%
N/A
2

FASHION WALK

Spanning four dynamic streets in the heart of Causeway Bay, Fashion Walk has, through its recent renovation, re-established itself as a one-of-a-kind community providing a rich source of creative inspiration for fashion and living with style. With a multitude of the world's leading designer labels, and a diverse line-up of exciting food and retail options, the Fashion Walk neighborhood has become more sophisticated, with a vibe of its own that never ceases to energize and inspire. Through the year in review, Fashion Walk has enhanced customer experience with the addition of an impressive array of cutting edge brands including Fjallraven, Sandro, Maje, Y's, ZUCCa and Reebok, along with a new adidas flagship store. The grand opening of Lady M New York in Fashion Walk's adjacent al fresco dining hub has further enhanced Food Street's reputation as the premier choice for fashionable refreshment.

Pop-up stores have been leveraged throughout the year to provide exciting new twists to our retail mix and stimulate public interest in trending concepts and merchandise. Participants include Chanel's ROUGE COCO ON TOUR world music tour, Moet & Chandon's Ice Imperial Pop Up Lounge, Baume & Mercier's Capeland Shelby Cobra Pop-up Store, Kiehl's Nature Mix Market, and Maxim's Mooncake Pop-up Store.

Year-round marketing events are launched to engage and delight our customers. Fashion Walk deservedly gained global recognition with prestigious awards such as a bronze Cannes Lion, the ICSC Awards, and the Marketing Events Awards. These honors have solidified Fashion Walk's stature as the leading destination for fashion and lifestyle shopping in the territory, and further strengthened its brand value.

Fashion Walk has re-established itself as a one-of-a-kind community providing a rich source of creative inspiration for fashion and living with style

CENTRAL PORTFOLIO

Comprising the Standard Chartered Bank Building, 1 Duddell Street, Printing House, and Baskerville House, our Central office portfolio has continued to deliver stable rental growth during the year in review.

THE PEAK GALLERIA

The Peak Galleria achieved an occupancy rate of 100% in the first half of 2016. This was a considerable feat in the challenging retail environment associated with the drop in tourist arrivals and at a time when the mall is preparing for a comprehensive, phased renovation program commencing in the 1st quarter of 2017.

Fashion Walk's adjacent al fresco dining hub has further enhanced Food Street's reputation as the premier choice for fashionable refreshment

KORNHILL PLAZA

The mall's satisfactory performance for the year under review is largely based on a tenant mix that is ideally suited to the property's location. The general retail downtrend has had a lesser impact on consumer goods, groceries, and everyday food outlets. The tenant mix for Kornhill Plaza underwent a significant upgrade exercise in 2016, with the addition of 23 new retail brands and six restaurants.

Of the new introductions, eight are making their debut in the Hong Kong East district. The mall also features a new beauty section with the debut of the 10,000-square-foot Glam Beautique. Anchor tenant AEON department store completed a total upgrade of its facilities and in July 2016 launched the first AEON STYLE lifestyle department store outside Japan. Another major remodeling saw the upgrade of the existing ParknShop supermarket to the more upscale brand, Fusion. A further upgrade is underway at the MCL cinema, which is expected to reopen in April 2017 under the premium brand, Grand Kornhill Cinema, complete with Hong Kong's first MX4D technology-enabled movie experience.

Supporting the mall's positive growth during the year under review has been a program of marketing events and activities including the Paul Frank X KP Chinese New Year event, which included themed decorations, pop-up stores, and the redemption of New Year red packets. Leveraging on this success, the team intends to develop a unique signature event for the mall in the coming year to boost brand image and engage the public with the mall's diverse tenant offerings.

Kornhill Plaza has undergone a significant upgrade exercise in 2016

Plans are also underway for the promotion of food and beverage brands within the mall through a series of O2O programs to engage fans with offers of dining coupons. The tenant mix will undergo further refinement in the coming year, with five to six restaurants expected to open their doors during 2017, including ClubONE, a renowned restaurant focusing on wedding banquets and event catering. These, together with a focus on kids' lifestyle retail and services, will provide a basis for sustained growth opportunities for Kornhill Plaza in 2017.

Pop-up features and marketing events at our Mongkok portfolio drive footfall and income, as well as bringing increased excitement to the district

MONGKOK PORTFOLIO – SHOPPING MALL

The development of a beauty hub at Grand Plaza and improvements made to advertising signage to improve the shopping ambiance helped to drive sales revenue. Meanwhile, the transformation of the second floor of the mall from retail shops to a diverse range of food and beverage outlets not only broadened our food offering and established Grand Plaza as a fashionable dining destination, but also helped to draw more traffic to the mall's upper zone.

The synergy between the properties in our Mongkok portfolio also amplified brand visibility as international labels established a succession of new flagship and concept stores at Grand Plaza, Gala Place, and Hollywood Plaza. The opening of H&M at Gala Place and 6ixty8ight at Hollywood Plaza has demonstrated this bonding effect. Hence we not only strengthened our position as a fashion retail hub but also provided a much needed engine for rental growth. These advances made in the course of 2016 set a firm foundation for sustained growth in the coming year.

Branding the area as the place Where We Meet Trends will create opportunities for cross-mall synergy as well as talking points that will boost footfall. Strengthening tenant engagement, our teams intend to work with our brand partners to create more limited edition products and promote a "flagship hopping" concept to attract footfall from target segments of the community. These measures will establish Hang Lung's Mongkok portfolio as the preferred social hub among young adults.

After completion of the asset enhancement, we groomed Gala Place as a renowned place of happenings during the year. Events such as pop-up features and marketing activities drove footfall and income, as well as bringing increased excitement to the district. Later in the year, the craft beer festival and Halloween party generated a buzz in the media with encouraging coverage in both local and international media. Although the general economic climate presents further challenges, we shall sustain our growth trajectory with the team's focus on presenting more pop-up features in the coming year to continue the coordinated campaign to draw customers.

MONGKOK PORTFOLIO – OFFICE TOWERS

The general economic climate inevitably subdued the performance at the office towers with a reduced occupancy rate and shrinking demand. To increase our competitive edge and enhance the customer and tenant experience, enhancement and upgrading works have been undertaken to renovate the common areas. In addition, the trade mix has also been enhanced and broadened to recruit more diversified trade floors in the office portfolio.

In order to enhance the pull factors to retain existing tenants and to attract quality new ones, we are pioneering the roll-out of complimentary IT supporting services to most of our office towers in 2016. Such value-added service for our office tenants is very well received, with most common IT problems such as internet disconnection, printing job failures and email transmission problems now solved by our frontline staff.

The value-added IT supporting service is well-received by our office tenants

Growth at Amoy Plaza has been supported by local consumption along with effective marketing campaigns and an enhanced tenant mix

AMOY PLAZA

Satisfactory growth of 5.1% was recorded at Amoy Plaza despite economic headwinds. Growth at the mall has been supported by local consumption from the Kowloon Bay business district and the local residential areas, along with effective marketing campaigns and an enhanced tenant mix.

Amoy Plaza has undertaken a tenant mix reshuffle including the introduction of Tai Hing Group's three-in-one concept store (comprising Tai Hing, Teawood, and Trusty Congree King), Aroi Thai, and other new restaurants that have achieved higher sales turnover.

In the retail sector, fashion brands Ray-Ban and Skechers opened their first Hong Kong concept stores at the mall, and the consolidation of the mall's Healthcare and Beauty and Leisure and Lifestyle zones has seen the addition of new high-profile brands such as Fortress, CD Warehouse, and Joint Publishing.

In terms of enhancing our physical capacities, small shop lots have been combined into larger ones to attract chain stores which can help to provide a more stable rental revenue stream.
In light of the potential addition of a footbridge from the East Kowloon Culture Centre to Amoy Plaza, feasibility studies have been initiated to assess possible equipment and utilities upgrades.

Whilst the coming year presents its challenges, Amoy Plaza is in an excellent position to maintain its position in the market as an attractive one-stop shopping, dining, entertainment, and lifestyle hub servicing the Kowloon East district with over 250 retail outlets and more than 40 specialty restaurants. We are targeting a further upgrading of our food and beverage offering along with the addition of a new cinema operator.

With the maturing of Kowloon Bay as a commercial and business hub and the future new development of the East Kowloon Cultural Centre (expected to be completed in 2020), the district is projected to flourish with Amoy Plaza at its center.

Hong Kong Property Sales and Development

Our performance in property sales bore fruit in the year under review following the successful execution of our sales campaigns.

By year-end, sales of 436 units at The Long Beach; two semi-detached houses at 23-39 Blue Pool Road; two units at Carmel-on-the-Hill; and one unit at The HarbourSide have been recorded. We also took the opportunity to consolidate our portfolio with the timely disposal of some of our non-core stock including some remaining parking spaces at The Aquamarine, and selected car parking spaces at Carmel-on-the-Hill.

THE LONG BEACH

Situated in a prime location in southwest Kowloon, The Long Beach, comprising 1,829 units across eight towers featuring a distinctive wave-like design, is a high-end residential complex offering spectacular, unobstructed sea views. We monitored market sentiment and were successful in our timing of two windows of opportunity in 2016. In April, we gauged the most opportune time to execute the launch of Tower 9, and sold 230 flats together with stocks in other towers. Whilst the Double Stamp Duty imposed in November has curbed investment demand, prospects for The Long Beach have remained positive amid a slowdown in the pace at which competitors have released properties for sale. The reduction in competition has increased market focus on The Long Beach with the only major launch in early December of Tower 2 followed by the release of Tower 1 shortly afterwards. By year-end we had 236 units, most with sea views, available for sale.

The Long Beach is a high-end residential complex offering spectacular sea views

The 18 stylish semi-detached houses at 23-39 Blue Pool Road bring a distinctive combination of contemporary design and urban living

23-39 BLUE POOL ROAD

Occupying a position of unsurpassed luxury in our portfolio and in the market at large, the 18 stylish semi-detached houses at 23-39 Blue Pool Road bring a distinctive combination of contemporary design and urban style. The development was awarded a Gold Level certification under the Leadership in Energy and Environmental Design (LEED) for Homes program issued by the U.S. Green Building Council, and clinched the Silver Award in the category of Best Residential Development at the MIPIM Asia Awards 2014, and the Residential Architect of the Year Award at the Chivas 18 Architecture Awards 2015. Our constant strategic stance of selling only at a price reflective of the development's true asset value paid off in the year under review with two sales recorded within a month.

OUTLOOK

Our outlook for the coming year is generally positive with strategies that factor in the need for due vigilance over events that may inject uncertainty into otherwise broadly stable market conditions. It is possible that the effect of the new stamp duty measure may not be fully reflected at present and may continue to have an impact in the early part of the year ahead. We have also taken into consideration the possibility of a new cycle of U.S. interest rate hikes along with the uncertainty that a new U.S. President and a new Chief Executive in Hong Kong might bring to the market as their respective agendas and policy directions unfold. However, taking into account the strong and sustainable demand for homes, we anticipate that the property market in 2017 will remain stable.

Outlook

Certain events such as Britain's decision to leave the European Union (Brexit), Donald Trump's victory in the U.S. presidential election and the rising likelihood of further interest rate hikes by the Federal Reserve increased the uncertainty of the global financial and economic outlook. The long-term impact of these events remains unclear. We will closely monitor their developments.

It is expected that both mainland China and Hong Kong will continue to face the challenges posed by slow economic growth and weak retail consumption sentiment.

In 2017, our focus is to drive rental growth in Hong Kong and expand occupancy in cities outside Shanghai, while maximizing income in Shanghai and across the office portfolio. Retail trades have to be expanded to complement our high-end, high-quality positioning to grow footfall and retail sales. Improving cost efficiency is vital to maintaining and improving rental margin.

Our retail properties in Hong Kong are less exposed to the high-end sector; we expect a mild growth in rental income in this segment. The office and industrial segment is relatively more stable despite a higher tenant turnover. A moderate growth in office rental income is still expected in 2017. The under-performance of our residential and serviced apartments will be remedied by a more aggressive leasing strategy going into the 4th quarter of 2016 and into 2017.

Our properties in Shanghai will continue to strengthen their positioning with continued improvements in their trade mix and tenancy profile. In 2016, the Plaza 66 mall underwent a well-executed major renovation with a manageable level of income interruption. Completion of the renovation along with new letting will return Plaza 66 to its growth path in 2017 and beyond. Like Plaza 66, the Grand Gateway 66 mall will go through its renovation cycle from 2017 to 2019.

Outside Shanghai, there were more store closures and delayed openings across different cities. Our malls in Shenyang Forum 66 and Wuxi Center 66 have suffered the most in 2016. The setback in the two malls is expected to be offset by the continuing lease-up of the two office towers. The emphasis in 2017 is on raising the level of occupancy.

The Dalian Olympia 66 mall was soft-opened for business in December 2015, in the face of excessive bureaucratic hurdles. Progress was gradually made in 2016 and, after the official opening in September, leasing will be expedited throughout 2017, along with a build-up in footfall and retail sales.

Backed by our financial strength, various asset enhancement programs will continue both in Hong Kong and in Shanghai. Some short-term rental loss maybe inevitable during the renovation period. Projects under development in mainland China will continue to proceed as planned.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand and may further build our land bank when opportunities arise.

Mainland China Property Development

As one of only a few Hong Kong property developers to establish a presence in the Mainland's commercial property market, Hang Lung has been expanding its strong Mainland portfolio with 10 world-class landmarks across eight cities.

SUMMARY OF NEW PROJECTS IN MAINLAND CHINA

	CENTER 66	FORUM 66	SPRING CITY 66	HEARTLAND 66
City	Wuxi	Shenyang	Kunming	Wuhan
City status	Major City	Provincial Capital	Provincial Capital	Provincial Capital
Province	Jiangsu	Liaoning	Yunnan	Hubei
Usage	Shopping Mall, Office, Hotel, Serviced Apartments	Shopping Mall, Office, Hotel, Serviced Apartments	Shopping Mall, Office, Serviced Apartments	Shopping Mall, Office, Serviced Apartments
Total gross floor area ('000 sq.m.)	371	800	432	460
Year of Completion	Shopping Mall: 2013 Office Tower: 2014 Remaining portions: In phases from 2019	Shopping Mall: 2012 Office Tower: 2015 Remaining portions: In phases from 2018	In phases from 2018	In phases from 2019

Mainland China Property Development

The Center 66 development will be the retail and commercial landmark of the central business district of Wuxi

CENTER 66

Phase 1

The first phase of Center 66 comprises a shopping mall and two office towers, with the shopping mall and Office Tower 1 being operational. Work on the temporary steel protection platform for the construction of Office Tower 2 commenced in December 2016 and is progressing on schedule, while the main consultants have been appointed. In order to drive traffic, a cinema of approximately 6,800 square meters on the podium is currently under planning and is targeted for operation in 2019. The development team is liaising closely with the city and district governments to garner the necessary support. Meanwhile, Office Tower 2 has been awarded LEED Gold pre-certification for Core and Shell.

Phase 2

Phase 2 of Center 66 will comprise two serviced apartment blocks and commercial facilities. The development has received the strong support of the local government and related stakeholders.

FORUM 66

Covering a gross floor area of 800,000 square meters and situated on Qingnian Da Jie, known as the city's Golden Corridor, Forum 66 is a landmark in Shenyang. The Forum 66 shopping mall commenced operations in September 2012 and was joined by Office Tower 1 in early 2015. The top 19 stories of this tower will be a Conrad Hotel, which is expected to open in 2019.

Forum 66 is a beacon for development among the landmarks of Shenyang's city center

SPRING CITY 66

Located in the central business and commercial district of Kunming, Spring City 66 will house a world-class shopping mall, a Grade A office tower, and serviced apartments, covering a total gross floor area of about 432,388 square meters. Construction work has been on schedule with initial piling works completed in early 2016. The project has already been awarded LEED Gold pre-certification for Core and Shell. Upon completion, the shopping mall will house over 300 international brands and featured boutiques that encompass all aspects of urban living.

Spring City 66 is set to become a major city landmark

Heartland 66 will be a development comprised of a world-class shopping mall, an office tower and serviced apartments

HEARTLAND 66

Hang Lung's 10th development on the Mainland, Heartland 66 brings to the center of Wuhan a world-class shopping mall, a Grade A office tower, and premium serviced apartments. Covering a total gross floor area of about 460,000 square meters, Heartland 66 was awarded LEED pre-certification for Core and Shell. The project is scheduled for completion in phases from 2019.

Major Properties of the Group

A. MAJOR PROPERTIES UNDER DEVELOPMENT

At December 31, 2016

	Location	Site Area (sq.m.)	Main Usage	Total Gross Floor Area (sq.m.)	% Held by The Group	Stage of Completion	Expected Completion Year
MAINLAND CHINA							
SHENYANG							
Forum 66	Qingnian Da Jie, Shenhe District	92,065	M/H/O/S	574,577	55.1%	Hotel fitting-out	2018 onwards
WUXI							
Center 66 (Phase 1)	Renmin Zhong Lu, Liangxi District	37,324	O	52,261	55.1%	Superstructure	2019 onwards
Center 66 (Phase 2)	Jiankang Lu, Liangxi District	16,767	M/H/O/S	108,980	55.1%	Planning	
KUNMING							
Spring City 66	Dongfeng Dong Lu, Panlong District	56,043	M/O/S	432,388	55.1%	Foundation	2018 onwards
WUHAN							
Heartland 66	Jinghan Da Dao, Qiaokou District	82,334	M/O/S	459,500	55.1%	Foundation	2019 onwards

M: Mall
H: Hotel
O: Office
S: Serviced Apartments

B. RESIDENTIAL PROPERTIES COMPLETED FOR SALE

At December 31, 2016

	Location	Site Area (sq.m.)	Total Gross Floor Area (sq.m.)	% Held by The Group	No. of Residential Unit for Sale	No. of Car Parking Spaces for Sale
HONG KONG						
23-39 Blue Pool Road	23-39 Blue Pool Road, IL 5747	7,850	7,633	55.1%	16	32
The HarbourSide	1 Austin Road West, KIL 11080	13,386	210	55.1%	1	3
The Long Beach	8 Hoi Fai Road, KIL 11152	20,200	19,831	55.1%	236	–
Carmel-on-the-Hill	9 Carmel Village Street, KIL 11122	1,421	–	55.1%	–	12

C. MAJOR INVESTMENT PROPERTIES

At December 31, 2016

	Location	Lease Expiry	Total Gross Floor Area (sq.m.) Commercial	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
CENTRAL						
Printing House	6 Duddell Street, IL 339	2848	1,709	5,980	–	–
1 Duddell Street	1 Duddell Street, IL 7310	2848	2,340	6,616	–	–
Baskerville House	22 Ice House Street, IL 644	2880	1,473	3,379	–	–
Standard Chartered Bank Building	4-4A Des Voeux Road Central, Sections A&B of ML 103	2854	4,814	23,730	–	16
CAUSEWAY BAY AND WAN CHAI						
Hang Lung Centre	2-20 Paterson Street, IL 524 & IL 749	2864	8,777	22,131	–	126
Fashion Walk	Paterson Street, Houston Street, Great George Street, Cleveland Street, Kingston Street, Gloucester Road, ML 231 & ML 52, IL 469 & IL 470	2842, 2864 & 2868	31,072	–	7,935	–
Shui On Centre	15/F-28/F, 6-8 Harbour Road, IL 8633	2060*	–	16,313	–	42
KORNHILL (QUARRY BAY)						
Kornhill Plaza	1-2 Kornhill Road, IL 8566	2059*	53,080	10,577	–	1,069
Kornhill Apartments	2 Kornhill Road, IL 8566	2059*	–	–	35,275	–
THE PEAK AND MID-LEVELS						
The Peak Galleria	118 Peak Road, RBL 3	2047	12,446	–	–	493
Nos. 2&3 Garden Terrace, Block 2	8A Old Peak Road, IL 896 & IL 2850	2078 & 2886	–	–	558	12
The Summit	41C Stubbs Road, IL 8870	2047	–	–	15,225	54
HONG KONG SOUTH						
Burnside Villa	9 South Bay Road, RBL 994	2072	–	–	9,212	89
MONGKOK						
Grand Plaza	625 & 639 Nathan Road, KIL 10234 & KIL 10246	2060	20,905	31,251	–	40
Hang Tung Building	1112-1120 Canton Road, KIL 9708	2045*	–	–	–	955
Park-In Commercial Centre / Gala Place	56 Dundas Street, KIL 9590	2044*	7,454	30,205	–	478
Carmel-on-the-Hill	9 Carmel Village Street, KIL 11122	2050	2,131	–	–	11
TSIM SHA TSUI AND WEST KOWLOON						
Grand Centre	8 Humphreys Avenue, KIL 7725 & KIL 8026	2038	3,688	7,198	–	–
Hanford Commercial Centre	221B-E Nathan Road, KIL 10619 & KIL 8132	2037	1,444	4,891	–	–
AquaMarine	8 Sham Shing Road, NKIL 6338	2050	22,350	–	–	413
The Long Beach	8 Hoi Fai Road, KIL 11152	2050	20,174	–	–	390

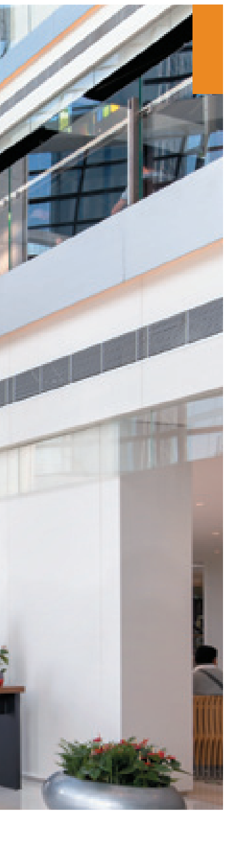
	Location	Lease Expiry	Total Gross Floor Area (sq.m.)# Commercial/ Mall	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
NGAU TAU KOK						
Amoy Plaza	77 Ngau Tau Kok Road, NKIL 53, NKIL 1482, NKIL 2660 & NKIL 3947	2047	49,006	–	–	620
CHEUNG SHA WAN, KWAI CHUNG AND TSUEN WAN						
822 Lai Chi Kok Road	822 Lai Chi Kok Road, NKIL 5568	2047	–	9,004	–	73
9 Wing Hong Street	9 Wing Hong Street, NKIL 6229	2047	–	35,223	–	95
Laichikok Bay Garden	Shops 1A1, 1A2, 5A, 6A & 6B, Lai King Hill Road, Lot 3336 of SD 4	2047	3,109	–	–	172
Bayview Garden	633 Castle Peak Road, Tsuen Wan, TWTL 329	2047	4,959	–	–	52
TUEN MUN						
Tai Hing Gardens	11 Tsun Wen Road and 10A Ho Hing Circuit, Tuen Mun, TMTL 312	2047	10,970	–	–	387
Luen Cheong Can Centre	8 Yip Wong Road, Tuen Mun, Lot 1169 in DD131	2047	–	7,856	–	37
MAINLAND CHINA						
SHANGHAI						
Grand Gateway 66 Gardens 1 & 2	2118 Hua Shan Lu, Xuhui District	2063	–	–	64,900	–
Grand Gateway 66	1 Hong Qiao Lu, Xuhui District	2043	120,188	67,200	18,300	835
Plaza 66	1266 Nanjing Xi Lu, Jing'an District	2044	53,700	159,555	–	804
SHENYANG						
Palace 66	128 Zhongjie Lu, Shenhe District	2057	109,307	–	–	864
Forum 66	1 Qingnian Da Jie, Shenhe District	2058	101,960	144,677 (excluded hotel)	–	2,139
JINAN						
Parc 66	188 Quancheng Lu, Lixia District	2059	171,074	–	–	789
WUXI						
Center 66 (Phase 1)	139 Renmin Zhong Lu, Liangxi District	2059	104,906	85,438	–	1,292
TIANJIN						
Riverside 66	166 Xing'an Lu, Heping District	2061	152,831	–	–	800
DALIAN						
Olympia 66	66 Wusi Lu, Xigang District	2050	221,900	–	–	1,214

* With an option to renew for a further term of 75 years

\# Gross floor area of mainland China investment properties includes gross floor area above and below ground

Cohesion

"One heart and one mind" is an article of faith for a team aiming for a shared goal. It also leads every one of us in Hang Lung to row to the same rhythm, and each innovative idea and groundbreaking initiative drives the Company onward to success.




SAMSUNG
Häagen-Dazs
STARBUCKS COFFEE

Financial Review

CONSOLIDATED RESULTS

For the financial year ended December 31, 2016, total revenue of the Hang Lung Group Limited and its subsidiaries (the Group) increased 43% to HK$13,648 million driven by higher contribution from property sales. Benefitting from more residential units sold during the year, property sales revenue surged 344% to HK$5,322 million. Revenue of property leasing was flat at HK$8,326 million, or up 3% if excluding the 6% year-on-year Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD). Total operating profit of the Group advanced 34% to HK$9,338 million.

Underlying net profit attributable to shareholders increased 40% to HK$3,772 million. After including a revaluation loss on investment properties, net profit attributable to shareholders increased 16% to HK$3,713 million. Earnings per share increased similarly to HK$2.73.

REVENUE AND OPERATING PROFIT

	Revenue			Operating Profit		
	2016 HK$ Million	2015 HK$ Million	Change	**2016 HK$ Million**	2015 HK$ Million	Change
Property Leasing	**8,326**	8,330	–	**6,129**	6,110	–
Mainland China	**4,427**	4,625	-4%	**2,814**	3,005	-6%
Hong Kong	**3,899**	3,705	5%	**3,315**	3,105	7%
Property Sales	**5,322**	1,198	344%	**3,209**	845	280%
Total	**13,648**	9,528	43%	**9,338**	6,955	34%

PROPERTY LEASING

During 2016, Hong Kong and the Mainland continued to experience a market correction and shifting consumer demand. In the major shopping districts in Hong Kong and Tier 1 cities on the Mainland, store closures, vacancies and delayed openings by major brands were commonplace.

In Hong Kong, gross domestic product (GDP) growth for full year 2016 is now forecast at 1.5%. Retail sales have fallen for almost two years. The first 11 months of 2016 posted an average drop in sales of 8.6% year-on-year. Mainland tourists have been spending overseas and arrivals in Hong Kong have shrunk by 7.8% over January to November 2016.

GDP growth in mainland China for 2016 was 6.7% which was lower than previous years. Retail sales remained sluggish, resulting in delayed mall openings and high vacancy rates in newly opened shopping centers.

Facing these challenges, we continued our focus on tenant reshuffling to enhance our mall positioning and optimize rental yield, launching creative and effective promotion campaigns, and implementing various cost control measures, etc. In light of the current down cycle, we continue to upgrade our facilities and service standards to enhance customer experience and loyalty.

On May 1, 2016, the final phase of the transition from the Business Tax to Value Added Tax (VAT) regime in mainland China took effect and became applicable to the real estate sector, among other industries. We took appropriate measures to implement the new tax regime accordingly.

For the financial year ended December 31, 2016, total revenue of our leasing properties in Hong Kong and on the Mainland stayed flat at HK$8,326 million, or up 3% when excluding the 6% RMB depreciation effect during 2016. Benefitting from asset enhancement initiatives and tenant mix optimization, revenue of our Hong Kong leasing portfolio advanced 5%. Revenue of our investment properties in mainland China, which accounted for 53% of total leasing revenue of the Group, recorded a moderate growth of 2% in RMB terms, mainly driven by contributions from the new shopping mall in Dalian and the office tower in Shenyang.

Total operating profit was flat at HK$6,129 million. Overall rental margin was 74%.

Mainland China

Overall revenue of the mainland China portfolio increased 2% to RMB3,785 million, mainly driven by contribution from the new Dalian Olympia 66 mall and higher revenue from the Shenyang Forum 66 office tower. Operating profit stayed flat at RMB2,405 million, and margin fell one point to 64% due to lower profitability of new properties during start-up period.

MAINLAND CHINA PROPERTY LEASING PORTFOLIO

	Revenue			Occupancy Rate at Year-end 2016	
Name and City of the Property	**2016 RMB Million**	2015 RMB Million	Change	Mall	Office
Shanghai Plaza 66	**1,305**	1,341	-3%	93%	95%
Shanghai Grand Gateway 66	**1,343**	1,307	3%	96%	89%
Shenyang Palace 66	**142**	137	4%	93%	N/A
Shenyang Forum 66	**230**	227	1%	84%	58%
Jinan Parc 66	**262**	269	-3%	91%	N/A
Wuxi Center 66	**224**	237	-5%	80%	65%
Tianjin Riverside 66	**191**	193	-1%	82%	N/A
Dalian Olympia 66*	**88**	4	N/A	66%	N/A
Total	**3,785**	3,715	2%		
Total in HK$ Million equivalent	**4,427**	4,625	-4%		

* Grand opening on September 9, 2016.

Shopping Malls

Our eight shopping malls in mainland China generated RMB2,633 million in rents collectively during 2016, stayed flat year-on-year. The contribution from the new Dalian Olympia 66 mall was largely offset by rental interruption to the Shanghai Plaza 66 mall due to renovation works and negative rental reversions at some malls outside Shanghai.

In 2016, the Group executed a major asset enhancement program at the Shanghai Plaza 66 mall, which has been in operation for about 15 years. This program was carefully planned, taking the opportunity of an economic down cycle to minimize the adverse effect of income interruption.

During the renovation, the entire basement representing over 13% of the leasable area of the mall was closed from March 2016. The renovation works were substantially completed and some tenants have already commenced fitting out works. The brand new basement, which was almost fully leased by the year-end, will re-open for business in early 2017. Consequently, revenue of the Shanghai Plaza 66 mall decreased 5% to RMB678 million, but was up 6% when excluding the renovation areas. By the end of 2016, occupancy rate was 93%.

Rental revenue of the Shanghai Grand Gateway 66 mall, our other flagship mall in Shanghai, increased 1% to RMB974 million driven by positive rental reversions. The Grand Gateway 66 mall also commenced its major renovation in the last quarter of 2016. About 28% of the leasable area of the mall will be closed in phases in 2017. Occupancy rate of the Shanghai Grand Gateway 66 mall decreased by one point to 96% by the end of 2016, as some leases were renewed on a short-term basis and a small number of leases were not renewed pending the imminent commencement of renovation. Although the asset enhancement program will result in a short-term disruption to revenue, it will enhance the mall's long-term competitiveness and profitability.

In a challenging environment, revenue of our six shopping malls outside Shanghai increased 1% to RMB981 million. The performance of the Shenyang Palace 66 mall was resilient, posting a 4% rental growth year-on-year. By the end of 2016, occupancy rate of Palace 66 increased three points to 93%.

Revenue of Jinan Parc 66 and Tianjin Riverside 66 decreased 3% and 1%, respectively. Amidst tenant reshuffling, occupancy of Jinan Parc 66 increased three points to 91%. The improvement was consistent with the strategy of a gradual tenants upgrade, led by the grand opening of the first Apple Store in Jinan at Parc 66 in May 2016. Apple also chose Tianjin Riverside 66 as the home of its first flagship store in China designed by world renowned architect Norman Foster. The store opened in March 2016. Occupancy rate of the Riverside 66 mall was down four points to 82% by the end of 2016.

The malls at Shenyang Forum 66 and Wuxi Center 66, which housed a relatively larger number of high-end tenants, were severely hit by sluggish retail market sentiment. They suffered from non-renewals and early terminations and had to make some downward adjustments to rents. Total revenue of these two malls dropped 18% year-on-year. Occupancy of the Forum 66 mall retreated by three points to 84%. With more new leases concluded in the second half, occupancy rate of the Center 66 mall improved eight points to 80% at year-end date. Nevertheless, with the increasing popularity of their Grade A office towers and the continuous efforts made on tenant reshuffling, it is expected that the performance of these two malls will improve progressively.

The new Dalian Olympia 66 mall had its grand opening on September 9, 2016. Occupancy increased to 66% by the end of 2016. The mall offers an enriched tenant mix and a unique shopping experience, with brands including Apple Store, Coach, Moschino, Palace Cinema, Olé supermarket and up-market fashion retailers like H&M and UNIQLO.

Offices

Rental income of our entire office portfolio in mainland China increased 5% to RMB1,015 million, mainly driven by higher contributions from the new office towers in Wuxi and Shenyang.

Revenue of the two office towers at Shanghai Plaza 66 was flat at RMB627 million. The enhancement works for Office Tower One were almost completed during the year. A similar program for Office Tower Two also commenced in the fourth quarter of 2016. The whole upgrade program will be completed in phases by 2018. The remaining enhancement works will not have much adverse impact on the revenue of Plaza 66. Overall occupancy rate of the Plaza 66 office towers slipped three points to 95% by the end of 2016, mainly due to a transitional void as a result of relocation of a major tenant from Tower One to Tower Two.

Revenue of the office tower at Shanghai Grand Gateway 66 decreased 2% to RMB232 million. Occupancy rate dropped eight points to 89% by the end of 2016 mainly due to some leases expiring before year-end.

Amidst a challenging market environment, the performance of the Grade A office towers at Wuxi Center 66 and Shenyang Forum 66 was satisfactory. During the year, we replaced certain peer-to-peer (P2P) tenants in the financial and IT sectors with top-quality major corporations and financial institutions. To name a few, UBS took up two whole floors of the Wuxi Center 66 office tower while Bank of China occupied six whole floors of the Shenyang Forum 66 office tower. Meanwhile, the conversion of the upper 19 floors of the Forum 66 office tower into a Conrad Hotel with 315 rooms and suites is progressing well. Leasing inquiries for both office towers remained strong. We are confident that they will assume a leading position in their respective markets in future. Total revenue of these office towers at Wuxi Center 66 and Shenyang Forum 66 amounted to RMB156 million, representing a 58% growth year-on-year.

Residential and Serviced Apartments

Revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai rose 26% to RMB137 million after adopting a different marketing strategy. Occupancy rate was up 11 points to 92% by the end of 2016.

Hong Kong

Against a backdrop of slower economic growth and sliding retail sales, the performance of our leasing properties in Hong Kong was resilient. Revenue and operating profit in Hong Kong rose 5% and 7% to HK$3,899 million and HK$3,315 million, respectively. Overall rental margin was 85%.

HONG KONG PROPERTY LEASING PORTFOLIO

	Revenue			Occupancy Rate at Year-end 2016
	2016 HK$ Million	2015 HK$ Million	Change	
Commercial	**2,275**	2,092	9%	96%
Office and Industrial/Office	**1,336**	1,299	3%	92%
Residential & Serviced Apartments	**288**	314	-8%	76%
Total	**3,899**	3,705	5%	

Commercial

Revenue of the Hong Kong commercial portfolio advanced 9% to HK$2,275 million as the benefits of asset enhancement initiatives continued to flow through. Overall occupancy was 96% by the end of 2016.

The Causeway Bay portfolio generated 12% more in rents year-on-year. In May 2016, adidas opened a 14,500 square feet sports performance flagship store at Hang Lung Centre, combining shopping with a training experience for sports lovers. Taken together with the 4-story flagship store of H&M which opened in October 2015, Hang Lung Centre is now a dynamic hub for fashion and sporting trend-setters. During the year, Maje, Sandro, MO&Co., Reebok Classic and Fjällräven, etc., were added to the array of brands at Fashion Walk. The opening of the renowned stylish New York patisserie, Lady M's Hong Kong flagship, in June 2016 further increased the popularity of the Food Street at Fashion Walk. The brand new Fashion Walk look, as a result of the major renovation program started in 2013, presents an attractive cluster of fashion, dining and lifestyle offerings.

Revenue of our properties in Mongkok increased 21% mainly attributable to rental reversions resulting from completion of the asset upgrade at Gala Place. In January 2016, H&M unveiled its 54,000 square feet full-concept flagship store at Gala Place. Together with the opening of the largest single floor concept store of Starbucks in Hong Kong in December 2015, Gala Place is now a fashionable regional destination. In light of decreasing numbers of visitors from mainland China, the performance of our jewelry and watch tenants at Grand Plaza was adversely affected. Their sales declined by about 27% on average. The food & beverage tenants at Grand Plaza were more resilient in the current economic climate, and their sales improved by 16% year-on-year.

The performance of our two community malls, Kornhill Plaza in Hong Kong East and Amoy Plaza in Kowloon East, was resilient in a challenging environment. More efforts were made to improve the zoning and to enrich the offerings of these two malls during the year. Kornhill Plaza collected 6% more in rents attributable to positive rental reversions. Its major tenant, AEON STYLE, completed a major refurbishment in the second quarter of 2016 and re-opened in July. Revenue of Amoy Plaza advanced 5% driven by a better tenant mix.

Our Central commercial portfolio recorded a moderate rental growth amidst a subdued retail climate. Overall occupancy at the year-end was 87%.

We will continue our efforts to upgrade various properties progressively. Renovation of the Peak Galleria will commence in the first quarter of 2017. The entire asset enhancement program will take about three years and will be completed in phases by 2019. The tenant mix of the Fashion Walk lifestyle zone located in Cleveland Street in Causeway Bay will be further enhanced in 2017. As a result of the renovation works, there will be a short-term disruption to the revenue of these two properties. However, these programs will, upon completion, provide an impetus to long-term rental growth while enhancing the charm of The Peak as a major attraction of Hong Kong.

Offices

Revenue of the entire Hong Kong office portfolio increased 3% to HK$1,336 million attributable to positive rental reversions. Overall occupancy rate decreased three points to 92% largely due to a transitional void arising from some recent lease expiries. Hang Lung Centre in Causeway Bay, in which the lift lobby and car parking spaces were upgraded during the year, posted a 5% rental growth year-on-year. The Central office portfolio collected 2% more in rents. Revenue of the Mongkok offices slipped 1% year-on-year.

Residential and Serviced Apartments

Rental income of residential and serviced apartments decreased 8% to HK$288 million due to lower occupancy rates. Demand for the luxury apartments at The Summit remained soft as the housing allowances of corporate clients remained tight. Kornhill Apartments faced keen competition from hotels, which offered deep discounts in response to the decreasing number of visitors from mainland China.

PROPERTY SALES

Benefitting from the sales of more residential units during 2016, revenue of property sales surged 344% to HK$5,322 million. The sales comprised 436 units of The Long Beach flats (2015: 36 units), two semi-detached houses at 23-39 Blue Pool Road (2015: Nil), one duplex at The HarbourSide (2015: 10 typical units) and the last two apartments of Carmel-on-the-Hill (2015: Nil). Correspondingly, profit from property sales increased 280% to HK$3,209 million. Overall profit margin was 60%.

As at December 31, 2016, the book cost of the residential properties available for sale was HK$2,374 million, which included 16 semi-detached houses at Blue Pool Road, 236 units of The Long Beach and one duplex of The HarbourSide.

PROPERTY REVALUATION

As at December 31, 2016, our investment properties were revalued by Savills, an independent valuer. The total value of our investment properties amounted to HK$133,005 million at the year-end of 2016. That comprised the value of the Hong Kong portfolio of HK$60,483 million and the mainland China portfolio amounting to HK$72,522 million.

An overall revaluation loss of HK$254 million was recorded in 2016, compared to a gain of HK$676 million in 2015. The mainland China portfolio had a revaluation loss of HK$798 million mainly due to lower valuation of the malls at Forum 66 in Shenyang and Center 66 in Wuxi. The Hong Kong portfolio recorded a revaluation gain of HK$544 million, of which HK$340 million was attributable to the revaluation gain of some car parking spaces that were previously held as properties for sale and stated as costs. With the change of intention of holding those car parking spaces from properties for sale to investment properties, it was necessary to revalue them in accordance with the accounting rules.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

As at December 31, 2016, the total value of the investment properties under development was HK$16,160 million. They comprised mainland China projects in Kunming, Wuhan and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of shopping malls, office towers and serviced apartments.

The foundation work of the second office tower at Wuxi Center 66 is in progress and the main contractor work will be awarded in the first half of 2017. The Center 66 Office Tower 2 with a gross floor area of 56,000 square meters will be built above the southeastern part of the Center 66 mall. The construction work is expected to be completed in 2019.

The construction work of Kunming Spring City 66 is progressing as planned. Total gross floor area of the entire complex is 432,000 square meters, comprising a world-class shopping center, a Grade A office tower, serviced apartments and car parking spaces. The shopping mall of Spring City 66 is scheduled to open at end of 2018.

Wuhan Heartland 66, covering a total gross floor area of 460,000 square meters, is a prestigious commercial project which will house a shopping mall of 177,000 square meters, a Grade A office tower, serviced apartments and car parking spaces. This project is scheduled for completion, in stages, from 2019 onwards.

In July 2016, the conversion of the upper 19 floors of the 67-story Grade A office tower at Shenyang Forum 66 into a hotel was officially approved. Under the esteemed Conrad brand, this five-star hotel is expected to open in 2019 and will have 315 exquisitely appointed guest rooms and suites. The addition of a five-star hotel will complement our vision of the Forum 66 as the destination of choice for high-end shopping, entertainment, business and hospitality experiences in Shenyang.

These projects represented the majority of the Group's capital commitments at the reporting date, amounting to HK$37 billion. They will be completed in phases over many years and the Group has ample financial resources to meet the funding needs.

LIQUIDITY AND FINANCIAL RESOURCES

The Group centrally manages financial resources and related risks. The aims are to maintain an appropriate degree of liquidity and ample financial resources to meet foreseeable funding needs. Funding sources are well-diversified. All related risks, including debt management, foreign exchange exposure, and interest rates volatility are centrally controlled and managed by the group treasury.

Liquidity Management

The cash flow position and major capital expenditure are closely monitored to ensure that the Group has a good degree of flexibility and liquidity to meet operational requirements and seize growth opportunities. This is achieved by keeping sufficient cash resources, having adequate undrawn committed banking facilities available, and maintaining the Medium Term Note (MTN) Program for bond issuance.

As at December 31, 2016, the Group had total cash and bank balances of HK$24,524 million (December 31, 2015: HK$31,482 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. About 88% of the liquid funds were held as RMB bank deposits, as a natural hedge for meeting future construction payments of projects under development in mainland China.

The currencies of cash and bank balances at the reporting date were as follows:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	% of Total	HK$ Million	% of Total
Denominated in:				
RMB	**21,563**	87.9%	30,164	95.8%
HKD	**2,950**	12.0%	1,306	4.2%
USD	**11**	0.1%	12	–
Total cash and bank balances	**24,524**	100%	31,482	100%

As at December 31, 2016, the available amount of undrawn committed banking facilities and the undrawn balance of the USD3 billion MTN Program were HK$13,052 million and HK$10,523 million, respectively.

Debt Management

The Group manages the debt portfolio with a focus on mitigating the re-financing and interest rate risks. These risks are well managed by maintaining an appropriate mix of fixed/floating rate borrowings and a well-planned maturity profile.

As at December 31, 2016, total borrowings of the Group were HK$31,119 million, which were lower than those a year ago mainly due to repayment of floating rate HKD bank borrowings with the cash generated from property sales. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	% of Total	HK$ Million	% of Total
Floating rate HKD bank loans	**8,145**	26.2%	13,695	36.7%
Floating rate RMB bank loans	**10,345**	33.2%	11,031	29.5%
Fixed rate bonds	**12,629**	40.6%	12,604	33.8%
Denominated in USD	**7,756**	24.9%	7,751	20.8%
Denominated in HKD	**4,873**	15.7%	4,853	13.0%
Total borrowings	**31,119**	100%	37,330	100%

At the balance sheet date, the average tenor of the entire loan portfolio was 3.7 years (December 31, 2015: 3.6 years). The maturity profile was well staggered, with about 83% of loans repayable after 2 years:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	**568**	1.8%	6,640	17.8%
After 1 but within 2 years	**4,844**	15.6%	2,062	5.5%
After 2 but within 5 years	**17,154**	55.1%	14,567	39.0%
Over 5 years	**8,553**	27.5%	14,061	37.7%
Total borrowings	**31,119**	100%	37,330	100%

Gearing Ratios & Interest Cover

As at December 31, 2016, the Group had a net debt balance of HK$6,595 million (December 31, 2015: HK$5,848 million). Net debt to equity ratio and debt to equity ratio were at 4.8% (December 31, 2015: 4.2%) and 22.5% (December 31, 2015: 26.6%), respectively.

The average cost of borrowings during the year was 4.0% (2015: 4.0%), comprising average cost of floating rate bank borrowings at 3.7% (2015: 3.7%) and fixed rate bonds at 4.6% (2015: 4.6%). For the financial year ended December 31, 2016, total gross interest expense incurred amounted to HK$1,425 million (2015: HK$1,591 million). The decrease in gross interest expense was mainly attributable to two reasons. Firstly, the average bank borrowings balance in Hong Kong dropped because of loan repayments using cash generated from operations. Secondly, the average cost of borrowings in mainland China was reduced due to the reductions in benchmark lending rates by the People's Bank of China. After netting off a smaller amount of interest capitalization upon completion of some projects under development, finance costs charged to the statement of profit or loss amounted to HK$1,202 million (2015: HK$1,147 million).

For the year ended December 31, 2016, interest income was HK$809 million (2015: HK$1,142 million). The decrease in interest income was mainly due to both lower RMB deposit rates and a lower average deposit balance for the year. Overall, net finance costs, i.e. the excess of finance costs over interest income, in 2016 amounted to HK$393 million (2015: HK$5 million).

The key indicator for debt servicing capability, interest cover, of 2016 was 14 times (2015: 14 times).

Foreign Exchange Management

The activities of the Group are exposed to foreign currency risks which mainly arise from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, it has exposure to USD arising from the two USD500 million bonds issued.

If appropriate, the Group may use derivative financial instruments for controlling or hedging foreign exchange risk exposures. Use of such instruments for speculative purposes is strictly prohibited. Derivative financial instruments currently used by the Group are cross currency swaps, with details set out in section (b) below.

Given that certain of the investments and operations are located in mainland China, the Group has exposure represented by the amount of net assets denominated in RMB. It endeavors to establish an appropriate level of external local borrowings in RMB up to the extent permitted by the prevailing regulations in order to minimize the foreign currency exposure.

(a) RMB Exposure

The RMB exposure of the Group is mainly derived from two respects of the operations. These are, firstly, the net assets of our Mainland subsidiaries which mostly comprise investment properties such as shopping malls, office towers and projects under development. Secondly, they are the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB of those projects under development in mainland China.

At December 31, 2016, the amount of net assets on the Mainland amounted to RMB62 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation loss of HK$4,917 million, as RMB depreciated by about 6% compared to December 31, 2015. By the same token, the RMB14,238 million deposits held in Hong Kong had to be re-translated into HKD as well and they accounted for HK$1,055 million of the re-translation loss for the financial year of 2016. The total re-translation loss of HK$5,972 million for 2016 (2015: HK$6,144 million) was recognized in other comprehensive income/exchange reserve.

Our capital commitments on Mainland projects under development amounted to RMB32 billion as at December 31, 2016.

In light of increasing uncertainties in the global economy and rising volatility of the RMB exchange rate, the Group considered it appropriate to adopt an enterprise risk management approach in mitigating the currency risks rather than forming a view on which side the currency will move. Accordingly, management has taken appropriate measures to balance the impact of currency fluctuation, including using more onshore RMB debts to finance construction payments up to the limit allowed by the authorities. Regular business reviews have also been conducted to assess the level of funding needs for Mainland projects under development after taking account of various factors such as regulatory constraints on local RMB borrowings, project development timelines and the business environment. As a result of these regular updates of our business plans and changes in relevant regulations and rules, we will make necessary modifications to our currency hedging arrangements accordingly when appropriate.

(b) USD Exposure

The USD foreign exchange exposure of the Group is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,756 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to fix the exchange rate between USD and HKD for future interest payments and principal repayments.

Accounting rules stipulate that the swap contracts be marked to market value at each reporting date. Any differences in the marked to market valuation between the reporting dates shall be treated as unrealized gain or loss for the period. For the financial year ended December 31, 2016, the swap contracts had an unrealized fair value gain of HK$203 million (2015: fair value loss of HK$101 million).

Charge of Assets

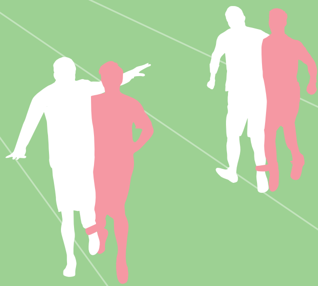
Assets of the Group were not charged to any third parties as at December 31, 2016.

Contingent Liabilities

The Group did not have any material contingent liabilities as at December 31, 2016.


恒隆一心
HANG LUNG AS ONE

Care



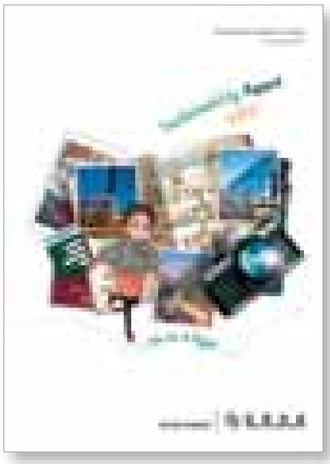
Sustainability is multidirectional relationships of care, which foster the good of the whole through the good of all stakeholders. In keeping with our business model, “Building to Own and Building to Last”, such sustainability is intrinsic to every facet of our business. We partner with our employees, our communities, and our environment to make strides together for a sustainable future.

Sustainable Development

Hang Lung prioritizes its commitment to integrate sustainability into every facet of its business. While we remained focused on building and operating our properties in a sustainable fashion in 2016, we also maintain our determination to strengthen internal controls, develop and retain our workforce, engage with the community and consolidate partnerships. We are taking all these measures with one goal – to Do It Right. We are not running a for-profit business just for ourselves but for the wider benefit of the communities in which we operate, creating value for the economy, society and the environment, which we consider essential to sustaining long-term growth.

HONESTY AND ACCOUNTABILITY

Honesty about business impacts and accountability for commitments are fundamental to corporate sustainability. Keeping this in mind, we have published standalone sustainability reports since 2013, which follow, or in some cases exceed, international and local reporting guidelines on communicating our progress in pursuing sustainability. To ensure the credibility of the reported information, we have commissioned since 2015 a third-party assurance body to provide independent verification of the reports. Our consistent efforts were recently recognized when our 2015 Sustainability Report was crowned with three titles, including "Asia's Best Sustainability Report (Stand-alone)", and "Asia's Most Transparent Report", at the Asia Sustainability Reporting Awards 2016 organized by CSRWorks in Singapore.



Hang Lung's 2015 Sustainability Report wins three titles at the Asia Sustainability Reporting Awards 2016

OUR BUILDINGS

Being a commercial property developer at the forefront of the markets we serve, we are committed to our long-standing business mode, Build to Own and Build to Last, through the incorporation of sustainability principles in how we design, construct, and manage our properties. In Hong Kong, our investment in optimizing the operating efficiency of our buildings is yielding cost savings as well as receiving recognition.

One of the foremost examples is our allocation of more than HK$30 million over the past six years to upgrade the chillers and enhance the indoor air quality of our headquarters, the Standard Chartered Bank Building. The recent presentation of the building with a Platinum Rating of Final Assessment under the BEAM Plus Existing Building Version 1.2 by the Hong Kong Green Building Council is a resounding affirmation of our tenacity in strengthening the environmental performance profiles of our portfolio. The certification also makes our headquarters the first office building in Hong Kong to attain such a high degree of recognition.

The Standard Chartered Bank Building attains a Platinum Rating of Final Assessment under the BEAM Plus Existing Building Version 1.2

In mainland China, we continue to strive for environmental excellence in construction. We are glad to have raised the total number of Leadership in Energy and Environmental Design (LEED) certified properties to seven this year, with our Olympia 66 recently becoming the recipient of the LEED for Core and Shell Development – Gold Level Certification.

Be it through asset enhancement or green building development, our ultimate goal is to reduce natural resource consumption in the course of our daily operations. In 2016, we successfully reduced the electricity and water intensity of our entire portfolio by 6.4% and 25.4% respectively, compared to the 2015 and 2012 baselines. We anticipate further reductions upon the completion of refurbishment initiatives carried out in the coming years at our major properties, such as Plaza 66, Grand Gateway 66 and The Peak Galleria.

2016 marked the first full year since the introduction of our company-wide Environmental Policy. The Policy guides our staff, contractors, and suppliers in working in an eco-friendly manner throughout our building lifecycle. With waste reduction being one of the key areas set out in the Policy, we encourage our tenants and customers to divert waste from landfills by recycling materials, such as paper, plastics, metal, glass, fluorescent light bulbs, and food waste. For new developments, we ensure, with the cooperation of our contractors, that construction waste is reused and recycled as much as possible. We are also in full support of global efforts to mitigate climate change by regularly monitoring, reviewing, reducing, and reporting our carbon footprint. In a concerted effort to reduce the regional and national carbon intensity at large, we have commenced cooperation with the Environment Bureau of the Hong Kong SAR Government and the private sector on relevant initiatives in 2016.

OUR PEOPLE

A quality and loyal workforce is the foundation of sustainable business growth. In order to attract and retain the best talent, we place employee development as a top priority in our corporate agenda. Through the provision of highly personalized capacity building programs, we enable our employees to acquire knowledge and skills to keep pace with the fast-changing business environment. Beginning in 2016, we also launched a series of custom-made online training courses on our e-learning platform, eAcademy 66, to enhance the coverage and efficacy of our training programs.

Hang Lung firmly believes that a strong sense of belonging on the part of employees is another key to building loyalty. We are committed to promoting a healthy work-life balance through our extensive Employee Wellness Program, which organizes a wide range of activities such as Green Week and Health Month to enhance the physical and mental wellbeing of our employees. We also restructured our Hang Lung Social Club and established various sub-committees, for instance the Dragon Boat Team and the Photography Club, to cater for a fuller spectrum of needs and interests.

Our ongoing success as a company relies on the full commitment and contribution of our people. To motivate our employees to excel, we recognize our staff for their loyalty and commend them for outstanding performance. We present long-service awards to employees whose tenure with Hang Lung is 10 years or more. The Emerald Award, on the other hand, was established to applaud service excellence among our frontline teams. With our comprehensive people initiatives, we were gratified to be named, once again, "Family-Friendly Employer" and "Employer of Choice" in 2016.

Hang Lung is committed to promoting a healthy work-life balance through organizing a wide range of activities for colleagues

As of 31 December, 2016, the Company employed 4,720 staff across Hong Kong and mainland China. Total employee costs amounted to HK$1,374 million. We regularly review our remuneration packages based on market conditions to ensure that our remuneration and benefits packages remain competitive in the market. We also comply with the local employment regulations in the jurisdictions in which we operate, with necessary policies set out in our company's Code of Conduct to safeguard an equal, safe, and harassment-free work environment.

The Emerald Award is established to applaud service excellence among our frontline teams

OUR COMMUNITY

Hang Lung takes its role within society seriously and strives constantly to give back to the wider community through our corporate social responsibility initiatives and resolute efforts to maintain the highest levels of accessibility and safety throughout our portfolio. Olympia 66 recently received acknowledgement from the Union for the Disabled in Dalian for providing a completely barrier-free environment in the mall, thereby demonstrating our commitment to go beyond statutory requirements for the provision of amenities and facilities for disabled people and others in need of assistance.

Our Hang Lung As One volunteer teams endeavor to engage more people and contribute meaningfully to society through wide-ranging initiatives conducted in collaboration with non-governmental organizations. Our activities for the year under review have remained focused on fostering the development of young people, promoting environmental protection and supporting the elderly. In 2016, we organized more than 100 activities with nearly 14,000 hours contributed by our colleagues to voluntary services in Hong Kong and mainland China under the slogan for the year "Better Me Better Society".

In Hong Kong, the volunteer team not only continued the "Architectural Tour" and "Be an Arty-Youth" series but has also launched the "Cultural Heritage" events. In this series, volunteers accompanied underprivileged primary school students to learn about unique traditional arts and crafts, such as moveable type printing, bamboo scaffolding, fire dragon dances and Chinese opera. Last year, three architectural and cultural tours were organized for over 200 secondary school students to inspire their enthusiasm for local history and culture. This program won the second runner-up award in the 2014-16 Best Corporate Volunteer Service Project Competition organized by the Steering Committee for the Promotion of Volunteer Services of the Hong Kong Social Welfare Department. This honor is a testimony to the effective application of our staff's expertise in making valuable contributions to society.

Volunteers accompany primary school students to learn about unique traditional arts and crafts

On the Mainland, our volunteer teams organized and took part in a variety of green activities, such as seashore cleaning in Tianjin, and a Green Cycling Day in Wuxi. Also, we visited homes for the elderly during festivals to organize parties and bring love and care to the senior citizens.

OUR PARTNERSHIPS

To ensure the full cooperation of our suppliers and contractors with our rigorous sustainability policies, we have issued a Supplier Code of Conduct detailing our expectations, and conduct regular assessments to monitor compliance with the Code. Following the implementation of a more sophisticated Project Management Manual, the occupational safety and health performance of the contractors at our five construction sites in mainland China has been steadily enhanced, with the accident rate remaining low at 0.1% in 2016.

Surveys have been conducted to solicit feedback on the level of satisfaction with our services among tenants and customers. In the ever-evolving retail and real estate markets, it is crucial for us to engage our tenants and customers in open dialogue in order to consistently exceed their expectations in the way we conduct our business.

Hang Lung co-organized the biennial landmark event Hang Lung Mathematics Awards (HLMA) with the Institute of Mathematical Science and the Department of Mathematics of The Chinese University of Hong Kong

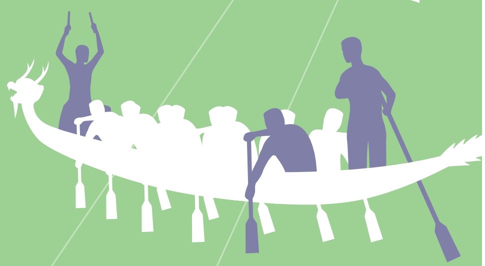
We constantly leverage the capacity of different organizations to achieve what we cannot achieve by ourselves to the benefit of society. We donated HK$2 million to the Hong Kong Red Cross (HKRC) for the establishment of a multi-function room at their new headquarters, and organized the Hang Lung Blood Donation Day with the support of the HKRC to engage our colleagues' and tenants' participation in this life-saving act.

Hang Lung co-organized the Seventh Hang Lung Mathematics Awards (HLMA), our biennial landmark event, with the Institute of Mathematical Science and the Department of Mathematics of The Chinese University of Hong Kong. To develop the potential of secondary school students in mathematics and science, a total of HK$1 million in scholarships was awarded to the winning teams this year. Apart from the competition, our Hang Lung As One volunteer team collaborated with the HLMA participants and students from the Department of Mathematics of The Chinese University of Hong Kong to provide six free mathematics tutorial classes to underprivileged primary school students, thereby extending the reach and merit of the program.

We also nurture partnerships that are closely aligned with our business strategy. Inaugurated in 2010, The Hang Lung Center for Real Estate at Tsing Hua University bolstered its efforts to spearhead academic research in real estate and develop talent in mainland China. Furthermore, we deepened our collaboration with the Center through co-organizing an executive study program at Tsing Hua University, allowing our colleagues to gain a better grasp of the latest market conditions on the Mainland.

As a good corporate citizen, we have adopted and fully complied with the "comply and explain" provisions of the ESG Guide.

Strategy



Hang Lung's sophisticated corporate governance and professional management systems ensure that our strategies support our vision. Equipped with insightful minds for astute planning and thoughtful execution, we take the guess work out of strategizing and put the highest priority on gaining the trust and respect of our stakeholders.


VUITTON

Risk Management

The Corporate Governance Report sets out details of our risk management and internal control systems.

The Company's principal risks in 2016 are listed below:

PROPERTY DEVELOPMENT RISK

The ability to acquire suitable land for development is critical for the Company in order to sustain its continuous growth and desired return on investment. Complexity of design and tight deadlines present implementation challenges to deliver our projects on budget, on time, and to quality. Sudden changes in government policies and regulations without sufficient consultation could significantly impact our project development.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Heavy capital investment coupled with a long investment period and market cycles provide both opportunities and challenges in land acquisition		• Set investment criteria and risk appetite prior to land acquisition • Consolidate local market information • Conduct appropriate due diligence including third party experts' reviews • Identify critical resource constrains for proper planning • Structured analyses of business opportunities • Financial prudence and continuous monitoring of return on investment
Complexity of design and tight deadlines present implementation challenges to deliver our projects on budget, on time and in line with required quality	Tighter design guidelines and change control	• Clear roles and responsibilities for accountability and division of duties among the departments of Project Planning, Project Construction, Cost and Controls and Leasing & Management at various stages of the development cycle • Closely monitor the projects' progress and review of all aspects of developments, planning and construction progress • Clear and comprehensive policies and procedures with periodic enhancements to tighten controls • Regular and comprehensive reports to the Board, and close management supervision
Introduction of new government regulations or sudden changes of policies without sufficient consultation could adversely affect project development	New/updated laws and regulations at both national and local level	• Actively engage with regulatory bodies and professional firms on updates to laws and regulations • Monitor the impact of major breaches or non-compliance with regulatory requirements, if any • Continue monitoring and assessing the impact of the regulatory changes

BUSINESS AND OPERATIONAL RISK

We ensure our properties remain competitive and up to the highest standards by closely monitoring and responding to the business environment and market trends. However, changes in market economic conditions or regulations/policies can significantly impact our business performance. Moreover, changing consumer behavior and fast paced technology development created new challenges to our business.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Changes in market economic conditions, such as the weaker overall economy of mainland China as well as slower luxury retail growth in recent years impact our business strategy	↑ Economic slowdown in mainland China	• Conduct structured market studies and research to understand the local competition and customer needs • Develop a positioning strategy and review tenant mix regularly at each project site • Review asset performance of each property on a regular basis and fine-tune business strategy to remain competitive
Fast paced technology innovation such as e-commerce and mobile applications, as well as rapidly changing consumer behavior and taste could impact the Company's business model or strategy	↑ Development of e-commerce, overseas purchasing and changes in consumer taste undermine our competitiveness	• Study the latest relevant technological developments and customer needs • Ensure IT infrastructure readiness for anticipated future IT developments such as mobile applications • Targeted Customer Relationship Management program to better understand customers, drive sales, and increase customer loyalty
Major external disasters or crisis, such as pandemics, pollution, floods, earthquake, etc. impact our assets or sustainability of the business	↔	• Ensure appropriate insurance coverage for properties and business • Develop business continuity plans for each critical function • Crisis management training and drills • Conduct testing on the effectiveness of design and implementation of crisis management plan

PEOPLE RISK

Strong competition for talented staff and the tight labor markets in the property management industries, together with the added demands from new projects, pose a challenge to the Company in providing adequate resources to support the existing and growing business. The sudden loss of key management is another risk which may affect our ability to operate.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Failure to recruit, develop or retain staff with suitable capability and capacity to support expansion/ growth of the Company	Increasing number of projects in mainland China with more penetration to the second-tier cities	• Develop manpower plan to match the existing human capital resources against our business strategy • Review the competitiveness of our compensation and benefits regularly • Provide training or financial assistance for staff attending recognized professional programs • Establish programs for management trainees, staff secondments and rotation to ensure our operations are supported by adequate talents
Sudden loss of key management could affect sustainability of business		• Establish a more structured succession planning for key management team members • Accelerate the internal movement of staff with the right calibre to build succession into key roles
Fraud and corrupt activities could result in significant financial losses and/or impact reputation of the business		• Commitment to the highest standards of integrity and accountability • Continuous training and communication with staff on integrity, impartiality, and honesty • Effective whistleblowing mechanism and grievance reporting system

TREASURY RISK

In keeping with the principle of prudent financial management, we have processes in place to identify and manage risks associated with our treasury operations. Key components under treasury function include interest rate and foreign exchange rate risks, funding and liquidity risk, as well as credit/counterparty risks.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Part of the Company's borrowings is floating-rate bank loans, which could expose us to rising interest rates	↑ US interest rates rise	• Adopt various appropriate measures such as the issuance of fixed rate bonds, the use of derivatives such as interest rate swaps for managing fixed/floating debt ratio • Maintain a relatively conservative gearing ratio
Our business in mainland China has by nature foreign currency risk from the capital investment, as well as those due to the currency mismatch between revenue and debts	↑ Increasing volatility in Renminbi	• Maintain an appropriate level of Renminbi resources for Company's capital requirements in mainland China • Monitor foreign exchange risk and perform sensitivity analysis periodically • Modify the currency hedging strategy when necessary
Market liquidity may change from time to time and limit our ability to borrow adequate and cost-effective funding	↔	• Manage cash and financing at corporate level by the treasury team • Maintain closer relationships with banks and intermediaries • Manage maturity profile of deposits and loans to minimize refinancing risk • Establish and maintain diversified channels of debt financing
Credit/counterparty risk exposure is primarily in rents receivable, installments receivable relating to property sales, and deposits placed with banks	↑ Economic slowdown in mainland China	• Undertake careful credit assessment of prospective tenants • Rental deposits, rental in advance and closely monitor outstanding rents to mitigate rents receivable risk • Use properties as collateral to protect receivables related to property sales • Assign bank exposure limits to mitigate concentration risk on our deposits • Only make deposits with banks that have sound financial strength and/or good credit ratings

In addition to addressing the principal risk categories faced by the Company, specific emerging risks such as major social or political developments in Hong Kong, mainland China and overseas have been monitored closely and reviewed periodically during the year. The Company recognizes that the potential impact of such emerging risk may be significant, and monitors the impact and likelihood of occurrence on a regular basis.

Key – Risk Trend (Change from last year)

↑ Upward/increasing risk trend ↔ Risk trend remains similar as previous year ↓ Downward/decreasing risk trend

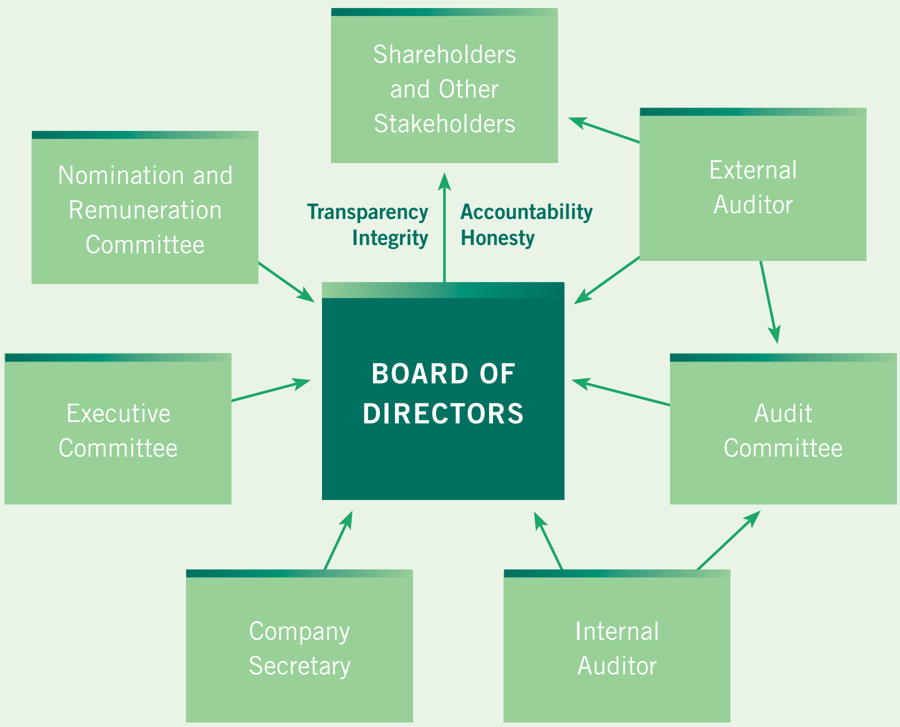
Corporate Governance Report

Over the past year, the retail environment in Hong Kong and mainland China remained challenging, a trend which is expected to continue into 2017. In face of the risks and challenges associated with a sluggish economy and slower markets, Hang Lung has further strengthened its corporate governance, particularly in risk management which is integral to delivering our corporate strategies and ensuring the sustainability of our business. In 2016, the ERM Working Group has made further inroads in risk management for Hang Lung and enforced our belief that a strong corporate governance structure remains a cornerstone of our sustainable growth and long-term success.

OUR STRONG BELIEF IN GOVERNANCE

Hang Lung firmly believes that strong governance is the foundation for delivering the corporate objective of maximizing returns to its stakeholders over the long term. At the core of the governance structure is an effective and qualified Board, which is committed to maintaining the highest standards of corporate governance, sound internal controls, and effective risk management to enhance transparency, accountability, integrity, and honesty, in order to earn the confidence of our shareholders and other stakeholders.

CORPORATE GOVERNANCE STRUCTURE



A SOUND CORPORATE CULTURE

As good governance is essential to corporate success, we have always been proud of our We Do It Right business philosophy, which has guided us to operate our business with integrity and honesty. A sound culture of governance has to reach all levels of the organization and the highest standards of integrity and honesty from every employee in every process is expected. Our professional management together with the Board strive to instill integrity into every aspect of our business in every city where the Company is operating its world-class projects.

PROFESSIONAL AND RESPONSIBLE BOARD

The Board comprises professionals from different sectors of society, who bring a wide range of business and financial experience and expertise to the Board. The Board includes a balanced composition of Executive and Non-Executive Directors so that there is a strong independent element on the Board which can effectively exercise impartial judgment. To enhance the function of the Board, three Board committees, namely, the Executive Committee, Audit Committee and Nomination and Remuneration Committee have been set up to assume different responsibilities.

PRUDENT RISK MANAGEMENT

The Company recognizes the various risk factors it will face in its operations and properly deals with them in a manageable manner by setting a good internal control environment and making continuous improvements to suit the changing operational needs. Further explanations are disclosed hereunder and in the Risk Management section of this annual report.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As good corporate citizens, we have adopted and fully complied with, and in many cases exceeded, the code provisions and some recommended best practices of the CG Code.

The key cases are listed below:

- Six regular Board meetings were held in 2016.
- Management is invited to join Board meetings from time to time for provision of information relevant to Board decisions to enable the Directors to discharge their duties and responsibilities.
- The Nomination and Remuneration Committee comprises entirely Independent Non-Executive Directors to ensure that no Executive Director is involved in deciding his own remuneration package.

- The Audit Committee met the external auditor four times without the presence of the Executive Board members in 2016.
- Since 2008, the Company has announced its interim and annual results within one month from the end of the accounting period.
- The ERM Working Group, comprising senior executives representing all business and support functions, has proven to be a robust forum for comprehensive key risks identification, risk evaluation, and formulation of effective mitigating measures.
- The Company has adopted a corporate Code of Conduct since 1994 which is regularly reviewed and is applicable to all staff and Directors. The Code of Conduct contains our well-defined whistleblowing policy and our Internal Audit Department has monitored and reported cases to the Audit Committee on a half-yearly basis.
- A sustainability framework has been in place since 2012 and the Sustainability Steering Committee is represented by senior executives of major business units. Our staff appraisals have incorporated sustainability measures as one of the key performance indicators.
- The Company has set up a crisis management framework which has proven to be robust in handling major incidents.
- The Company continuously enhances its website as a means of communication with stakeholders. Principal corporate governance structures, newsletters and webcasts of analysts' briefings are freely available for public perusal.
- The Company has adopted a policy governing the engagement of the external auditor for non-audit services to ensure the independence of the external auditor.
- The Company served more than 20 clear business days' notice to shareholders for AGM in 2016.
- In addition to his Letter to Shareholders, the Chairman takes the opportunity to explain business strategies and the outlook of the Group to shareholders at the AGM, to proactively open dialogue with them.

(I) Effective and Qualified Board

1. Composition, Board Diversity, Functions, and Board Process and Access to Information

Composition

The Board currently comprises eleven persons:

- four Executive Directors, namely, Mr. Ronnie C. Chan (Chairman), Mr. Philip N.L. Chen (Managing Director), Mr. H.C. Ho and Mr. Adriel W. Chan;
- three Non-Executive Directors, namely, Mr. Gerald L. Chan, Mr. George K.K. Chang and Mr. Roy Y.C. Chen; and
- four Independent Non-Executive Directors, namely, Mr. Simon S.O. Ip, Prof. L.C. Tsui, Mr. Martin C.K. Liao and Prof. P.W. Liu. Board members possess diverse academic and professional qualifications or related financial management expertise and bring a wide range of business and financial experience to the Board.

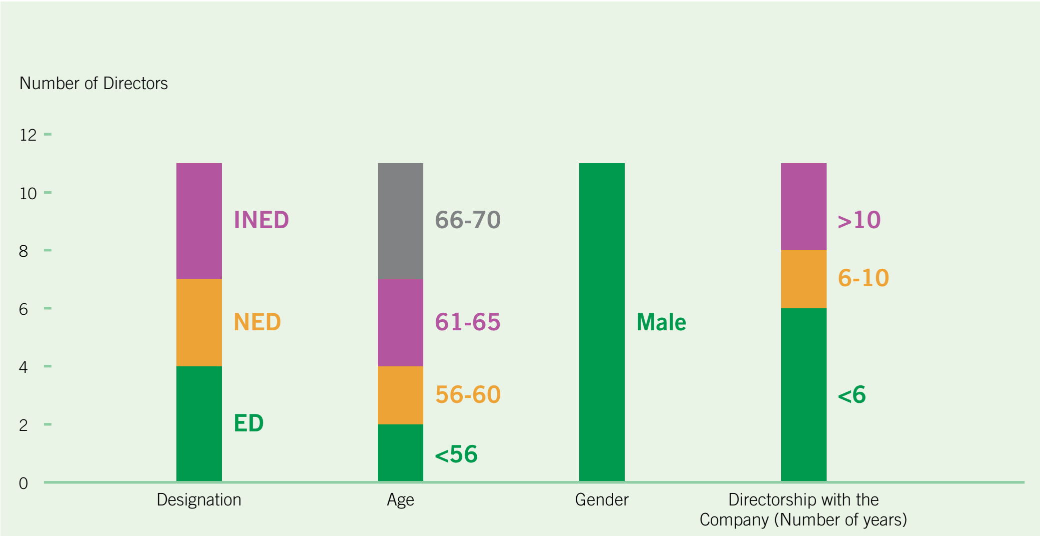
Mr. Ronnie C. Chan is the brother of Mr. Gerald L. Chan, a cousin of Mr. Roy Y.C. Chen and the father of Mr. Adriel W. Chan. Mr. George K.K. Chang is an employee of Morningside Group, which was co-founded by Mr. Ronnie C. Chan and Mr. Gerald L. Chan and is currently chaired by Mr. Gerald L. Chan.

Board Diversity

The Board has a policy setting out the approach to achieve diversity on the Board (the Board Diversity Policy) with the aim of enhancing Board effectiveness and corporate governance as well as achieving our business objectives and sustainable development. Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge, and length of service. The Board Diversity Policy is available on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board Diversity Policy was taken into account by the Nomination and Remuneration Committee and the Board as a whole in the appointment of Mr. Adriel W. Chan as Executive Director in November 2016 who is now mainly responsible for project departments, including project planning, project construction, cost & controls, and the asset assurance & improvement team, the ERM Working Group, as well as various other initiatives in the Group, enhance the effectiveness of the Board. The diversity of the Board was further enhanced in terms of the balance of skills, expertise, experience and professional background, in particular, in the areas of technology and risk management. The current Board consists of a diverse mix of Board members with appropriate skills and experience to lead and oversee the business of the Company, and depending on the needs of our growing business and the availability of competent candidates to fulfil those needs, suitably qualified individuals will be considered in the future for membership.

DIVERSITY MIX AS AT DECEMBER 31, 2016



Remarks

ED – Executive Director(s)

NED – Non-Executive Director(s)

INED – Independent NED(s)

Functions

An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of HKEx. Their biographical details, disclosed on pages 120 to 125 of this annual report, are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board is responsible for, among other things:

- ensuring continuity of leadership;
- the development of sound business strategies;
- the deployment of adequate capital and managerial resources to implement the business strategies adopted; and
- the adequacy of systems of financial and internal controls, risk management, as well as the conduct of business in conformity with applicable laws and regulations.

Non-Executive Directors (including the Independent Non-Executive Directors) have made a positive contribution to the development of the Company's strategies and policies, providing independent, constructive, and informed advice. They have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.

All Directors are required to disclose to the Company any offices held in public companies or organizations and other significant commitments.

In 2016, six regular Board meetings were held. Two Board meetings were held during two offsite Board trips in mainland China including a visit to Dalian for the grand opening ceremony of Olympia 66. Details of Directors' attendance records in 2016 are set out below:

	Meetings Attended/Held			
Directors	**Board**	**Audit Committee**	**Nomination and Remuneration Committee**	**2016 AGM**
Independent Non-Executive Directors				
Simon S.O. Ip	6 / 6	3 / 4	1 / 1	1 / 1
L.C. Tsui	5 / 6	4 / 4	N/A	1 / 1
Martin C.K. Liao	6 / 6	N/A	1 / 1	1 / 1
P.W. Liu	6 / 6	4 / 4	1 / 1	1 / 1
Non-Executive Directors				
Gerald L. Chan	4 / 6	N/A	N/A	0 / 1
George K.K. Chang	5 / 6	4 / 4	N/A	1 / 1
Roy Y.C. Chen	6 / 6	N/A	N/A	1 / 1
Executive Directors				
Ronnie C. Chan	6 / 6	N/A	N/A	1 / 1
Philip N.L. Chen	6 / 6	N/A	N/A	1 / 1
H.C. Ho	6 / 6	N/A	N/A	1 / 1
Adriel W. Chan (Note)	1 / 1	N/A	N/A	N/A

Note

Mr. Adriel W. Chan was appointed a Director on November 19, 2016.

Board Process and Access to Information

Any Director can give notice to the Chairman or the Company Secretary if they intend to include matters on the agenda of a Board meeting. Board or committee papers will be sent to all Directors or committee members at least three days before the intended date of a Board meeting or committee meeting. Management also supplies the Board and its committees with sufficient information and analyses so as to enable them to make an informed assessment of financial and other information put before the Board and its committees for approval. Management is also invited to join Board meetings where appropriate.

Furthermore, management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position, and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under the Listing Rules.

All Directors are entitled to have access to timely information in relation to our business and make further enquiries where necessary, and each also has separate and independent access to management.

In addition, all Directors have access to the advice and services of the Company Secretary, a full time employee of the Company, who is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The Company Secretary has confirmed that she took more than 15 hours of relevant professional training to update her skills and knowledge in 2016, including giving talks to external forums on corporate governance and sustainability.

Procedures have also been agreed by the Board to enable Directors to seek independent professional advice at the Company's expense.

Under the Articles of Association, a Director shall not vote or be counted in the quorum in respect of any transaction, contract, or arrangement in which he or any of his associates is/are materially interested unless otherwise stated.

We have also arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against them arising from corporate activities. The insurance policy is reviewed every year to ensure fair and sufficient coverage.

2. Clear Division of Responsibilities between Chairman and Managing Director

There is a clear division of responsibilities between the Chairman and the Managing Director to ensure a balance of power and authority.

Chairman

The Chairman, Mr. Ronnie C. Chan, provides leadership for the Board. He is responsible for ensuring that all Directors receive, in a timely manner, adequate information which must be accurate, clear, complete, and reliable, and that Directors are properly briefed on issues arising at Board meetings. He also ensures that:

- the Board works effectively and discharges its responsibilities;
- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established; and
- appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

He, at least annually, holds meetings with the Non-Executive Directors (including the Independent Non-Executive Directors) without the Executive Directors being present.

He is primarily responsible for drawing up and approving the agenda for each Board meeting. He takes into account, where appropriate, any matters proposed by the other Directors for inclusion on the agenda, or delegates such responsibility to the Company Secretary.

He encourages all Directors to make an active contribution to the Board's affairs and takes the lead in ensuring that the Board acts in the best interests of the Company. He encourages Directors with different views to voice their concerns, allows sufficient time for discussion of issues which the Board is charged to deliberate and reach decisions on.

He promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensures constructive relations between Executive Directors and Non-Executive Directors.

He also arranges suitable training for Directors to refresh their knowledge and skills.

Managing Director

The Managing Director, Mr. Philip N.L. Chen, is a member of the Executive Committee of the Company and is responsible for:

- leading the management team in business operations and in the implementation of policies and strategies adopted by the Board;
- the Company's day-to-day management in accordance with the instructions issued by the Board;
- developing strategic operating plans that reflect the objectives and priorities established by the Board and maintaining operational performance; and
- ensuring the adequacy of risk management, financial and internal control systems, and the conduct of business in conformity with applicable laws and regulations.

The Managing Director chairs the monthly meetings of the Company's various operational divisions. He reports to the Board from time to time on matters of material importance.

To cope with the fast pace of expansion and the ever-changing operating environment, management, under the leadership of the Managing Director, has put great effort into enhancing our operating system as well as our corporate culture with a regular integrity program for our staff. These reflect the way Hang Lung runs its business – We Do It Right.

3. Independence of Non-Executive Directors

We have received from each of our Independent Non-Executive Directors an annual confirmation of his independence and we consider each Independent Non-Executive Director to be independent.

To further enhance accountability, any appointment of an Independent Non-Executive Director who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. We will state in the notice of the AGM the reason why we consider the Independent Non-Executive Director to still be independent and our recommendation to shareholders to vote in favor of the re-election of such an Independent Non-Executive Director.

4. Appointment, Re-election and Removal

In accordance with the Articles of Association, one-third of the Directors are required to retire from office by rotation for re-election by shareholders at an AGM, and new appointments to the Board are subject to re-election by shareholders at the next general meeting. In addition, every Director is subject to retirement by rotation at least once every three years. The names of such Directors eligible and offering themselves for re-election, accompanied by detailed biographies, will be presented in the notice of the general meeting.

The Non-Executive Directors and Independent Non-Executive Directors are appointed for specific terms, which coincide with their expected dates of retirement by rotation at least once every three years.

5. Directors' Continuous Professional Development

Each newly appointed Director will meet with fellow Directors and key executives, and will receive a comprehensive, formal, and tailored induction on the first occasion of his/her appointment. Subsequently, he/she will receive the briefings and professional development necessary to ensure he/she has a proper understanding of the Company's operations and business and full awareness of his/her responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements, and especially the Company's business and governance policies. The Company Secretary facilitates the induction and professional development of Directors.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

Record of training received by each Director in 2016 is summarized below:

Directors	Types of Training
Ronnie C. Chan	A, B, C, D
Philip N.L. Chen	A, B, C, D
Gerald L. Chan	A, B, D
Simon S.O. Ip	A, B, D
L.C. Tsui	A, B, D
Martin C.K. Liao	A, B, D
P.W. Liu	A, B, C, D
George K.K. Chang	A, B, D
Roy Y.C. Chen	A, B, D
H.C. Ho	A, B, D
Adriel W. Chan	A, B, C, D

A Attending seminar(s)/forum(s)

B Reading materials relating to general business, property development and investment, directors' duties and responsibilities, etc.

C Giving talks to external seminar(s)/forum(s)

D Attending corporate event(s)/visit(s)

(II) Delegation by the Board

The Executive Committee, Audit Committee, and Nomination and Remuneration Committee were formed in 1989, 1999, and 2003 respectively.

1. Executive Committee

The Executive Committee of the Board was formed in 1989. Its members are all the Executive Directors of the Company, who meet regularly to establish the strategic direction of the Company and to monitor the performance of the management. Clear terms of reference have been adopted by the Board, and guidelines have also been set up for certain issues requiring Board approval. Each of the Committee members has full understanding on determining which issues require a decision of the full Board and which are delegated by the Board to the Committee or management.

2. Audit Committee

An Audit Committee was established by the Board in 1999. The Committee currently comprises three Independent Non-Executive Directors and one Non-Executive Director with appropriate academic and professional qualifications or related financial management expertise, namely, Mr. Simon S.O. Ip (Chairman of the Committee), Prof. L.C. Tsui, Prof. P.W. Liu and Mr. George K.K. Chang.

Under the CG Code, it is required that meetings are held at least two times per year with the external auditor. Separate meetings are also held with the external auditor, in the absence of management, as and when required. The Audit Committee has exceeded the CG Code requirements and held four meetings in 2016 for the purpose of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. Moreover, the Committee met the external auditor four times in 2016 without the presence of the Executive Board members.

The terms of reference detailing the Committee's role and authority, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website under Audit Committee of Corporate Governance of the Investor Relations section and the website of HKEx.

The Committee is authorized by the Board to investigate any activity within its terms of reference; to seek any information it requires from any employee (and all employees are directed to co-operate with any requests made by the Committee); to obtain outside legal or other independent professional advice; and to secure the attendance of outsiders with relevant experience and expertise at their meetings if necessary. Sufficient resources are provided to the Committee to discharge its duty.

In 2016, the Audit Committee performed, inter alia, the following:

Relationship with External Auditor, Review of Financial Information and Oversight of Financial Reporting System, Risk Management and Internal Control Systems

- reviewed and obtained an explanation from management and the external auditor for the interim and annual results, including the causes of changes from the previous accounting period, the effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board;
- considered and proposed to the Board the re-appointment of KPMG as the Company's external auditor and approved its terms of engagement;
- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company;

- received and reviewed the internal audit reports from the Internal Auditor;
- held meetings with the external auditor in the absence of management to discuss any material audit issues;
- held meetings with the Internal Auditor in private to discuss material internal audit issues;
- approved the internal audit program for 2017;
- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, training programs, and the Company's procedures for financial reporting; and
- approved the terms of reference of the ERM Working Group, providing a framework for the work of the risk management function across the board.

Corporate Governance Functions

- reviewed the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the Code of Conduct, and made recommendations to the Board;
- reviewed and monitored the training and continuous professional development of Directors; and
- reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Audit Committee also reviewed environmental, social and governance (ESG) related risks and confirmed that the ESG risk management system was in place and remained effective throughout 2016.

In view of our rapid expansion in mainland China, the Audit Committee also meets quarterly to review and monitor the progress and construction costs of Mainland development projects and major renovation projects. The Cost and Controls Department reports regularly in these Audit Committee meetings, and continues to provide an effective check and balance in the control of our sizeable capital expenditures spending and investment, as well as the quality and safety aspects of the projects.

3. Nomination and Remuneration Committee

A Nomination and Remuneration Committee, set up in 2003, now comprises entirely Independent Non-Executive Directors, namely, Prof. P.W. Liu (Chairman of the Committee), Mr. Simon S.O. Ip and Mr. Martin C.K. Liao. Regular reviews of significant changes to the salary structure of the Group and the terms and conditions affecting Executive Directors and senior management are conducted. The Committee met once in 2016 to review, inter alia, the composition of Board members and Directors' remuneration.

The terms of reference of the Committee can be accessed on both our website under Nomination and Remuneration Committee of Corporate Governance of the Investor Relations section and the website of HKEx.

The major works performed by the Committee in 2016 included the following:

- reviewed the Board Diversity Policy and its implementation;
- reviewed the structure, size and diversity of the Board;
- assessed the independence of the Independent Non-Executive Directors;
- made recommendations to the Board on the selection of individuals nominated for directorship with reference to qualifications and related expertise;
- made recommendations to the Board on the re-election of retiring Directors at the AGM;
- made recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management;
- determined the remuneration packages for individual Executive Directors and senior management, including benefits in kind, pension rights, and compensation payments; and
- made recommendations to the Board on the remuneration of the Non-Executive Directors and Independent Non-Executive Directors.

The remuneration package of Executive Directors and senior management, including discretionary bonuses and share options, is based on the following criteria:

- individual performance;
- skills and knowledge;
- involvement in the Group's affairs;
- achievement of business targets; and
- the performance and profitability of the Group.

The Committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group.

The Committee obtains benchmark reports for the evaluation of market trends and the competitiveness of the remuneration being offered to Directors and senior management. Sufficient resources are provided to the Committee to discharge its duties. The Committee may consult the Chairman and the Managing Director about remuneration proposals of other Executive Directors and has access to independent professional advice if necessary.

Details of remuneration payable to members of the senior management (which includes Executive Directors only) are disclosed in Note 7 to the Financial Statements.

4. Management Functions

Senior management includes Executive Directors only. Their duties are explained in the paragraph headed Executive Committee above. Key executives are responsible for day-to-day operations and the administration function of the Group under the leadership of the Executive Directors. The Board has given clear directions to management as to matters that must be approved by the Board before decisions are made on behalf of the Company. The types of decisions to be delegated by the Board to management include implementation of strategies and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. These arrangements are reviewed periodically to ensure that they remain appropriate to our needs.

(III) Directors' Securities Transactions and Share Interests

1. Compliance with Model Code

We have set out guidelines regarding securities transactions by Directors under Transactions in the Company's Shares in our Code of Conduct according to the required standard set out in the Model Code. The Company has made specific enquiries with all Directors and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Directors' securities transactions.

2. Share Interests of Directors

Details of Directors' interests in shares of the Company and HLPL as at December 31, 2016 are as follows:

	The Company		Hang Lung Properties Limited	
Name of Directors	**Number of Shares**	**Number of Shares under Option**	**Number of Shares**	**Number of Shares under Option**
Ronnie C. Chan	11,790,000	–	16,330,000	27,490,000
Philip N.L. Chen	–	–	–	21,500,000
Gerald L. Chan	–	–	–	–
Simon S.O. Ip	–	–	–	–
L.C. Tsui	–	–	–	–
Martin C.K. Liao	–	–	–	–
P.W. Liu	–	–	100,000	–
George K.K. Chang	–	–	–	–
Roy Y.C. Chen	–	–	–	–
H.C. Ho	–	–	–	10,450,000
Adriel W. Chan (Note)	498,428,580	–	2,507,987,340	350,000

Note

Mr. Adriel W. Chan was deemed to be interested in 498,428,580 shares of the Company and 2,507,987,340 shares of HLPL as he was a discretionary beneficiary of a family trust. The family trust held 498,428,580 shares (representing 36.61% interests) of the Company and held/was deemed to be interested in 2,507,987,340 shares of HLPL.

(IV) Accountability and Audit

1. Financial Reporting

Directors acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the Listing Rules, the Companies Ordinance, and also the accounting principles and practices generally accepted in Hong Kong. Appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. A statement by the external auditor, KPMG, about their reporting responsibilities is included in the Independent Auditor's Report on the Company's consolidated financial statements.

The Directors endeavor to ensure a balanced, clear and coherent assessment of the Company's position and prospects in annual reports, interim reports, price-sensitive announcements, and other disclosures required under the Listing Rules and other statutory requirements.

2. Risk Management and Internal Controls

Risk Management Framework

The Board has overall responsibility for risk management and for the determination of the nature and extent of significant risks it is willing to take to achieve the Company's strategic objectives. The Audit Committee is delegated with overseeing the effectiveness of our risk management system.

Risks are inherent in every sector of our business, and it is important to have a culture involving various staff levels and a systematic approach to identify and assess risks such that they can be reduced, transferred, avoided or understood. Management is tasked with the design, implementation, and maintenance of a sound and effective risk management framework with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) principles, which is crucial in delivering our corporate strategies and ensuring sustainability of our business. We are committed to continually enhancing our risk management framework, linking to our corporate strategies as well as integrating it into our day-to-day operations and decision-making. Chaired by an Executive Director, the ERM Working Group (comprising unit heads from all business units and support divisions), with the approved terms of reference, has been established as our second line of defense to coordinate and oversee risk management activities, whilst operational management remains the first line of defense. The Internal Audit Department, reporting directly to the Audit Committee on risk management and internal controls matters, acts as the third line of defense in this system.

The Company takes proactive measures to identify, evaluate and manage significant risks arising from our business and from the constantly changing business environment. During the year, the Company managed risks involving the identification and assessment of principal external and internal risks at different organizational levels. A list of principal risks, covering both strategic and operational risks identified by our company-wide risk assessment exercise, was compiled with reference to their residual risk impact and likelihood (after taking into consideration the mitigation controls outlined by individual risk owners). Action plans were developed, and risk ownership was assigned for each principal risk. The risk owners coordinated the mitigation measures to ensure proper implementation of these action plans.

The principal risks that the Company faces may not change significantly from year to year, although the magnitude and importance of these risks can and do vary. During 2016, enhancement measures to existing controls were implemented to mitigate rising risks from the continued economic slowdown and regulatory changes on the Mainland, as well as the Renminbi movements. On the other hand, risks from changing consumer behaviors and the rising US interest rates have increased in significance. These principal risks, together with their respective mitigating actions, are covered in the Financial Review and Risk Management sections of this annual report.

As the second line of defense, the ERM Working Group is responsible for overseeing risk management activities across all functions. In 2016, it met 6 times and achieved the following:

- Reviewed the effectiveness of the Company's ERM framework;
- Formalized the risk appetite and risk tolerance at an enterprise level with Board concurrence;
- Reviewed of risk assessment criteria to ensure that they were appropriately defined and continued to be relevant in light of the business and risk profile of the Company;
- Organized various workshops for management and operational staff to promote the ERM framework and embed a risk culture for monitoring and reporting risks within the Company;
- Evaluated the Company's principal risks and key emerging risks;
- Challenged the risk owners on the mitigation controls and their effectiveness;
- Analyzed root causes and checked risk enforcement in key areas where controls were previously inadequate or ineffective;
- Examined crisis management capacity for handling large scale sudden operational adversities; and
- Compiled relevant and timely risk reports, including a number of "deep-dives", for the Board and the Audit Committee.

ERM WORKING GROUP PRIMARY DUTIES

- Ensure appropriate guidelines and procedures applicable to risk assessment are in place
- Establish risk appetite and tolerance level
- Help ensure that risk assessment criteria are defined
- Coordinate and maintain a register of principal risks
- Facilitate risk identification, including key new risks and risk changes
- Assist in evaluation of the Company's principal risks and key emerging risks
- Facilitate management in assigning roles and responsibilities for risk control and ownership

The Internal Audit Department, as the third line of defense, plays an important role in the assessment of the effectiveness of risk management, and reports to Audit Committee on a regular basis. Key findings and recommendations for improvement and implementation are reported to the Audit Committee regularly.

The Board and the Audit Committee reviewed the Company's top and emerging risks, and conducted an annual review on the effectiveness of the ERM framework. Taking into consideration the principal risks and mitigating actions, the Board believes that the Company has the ability to adequately respond to changes to our business or the external environment.

Internal Control Framework

The Board is responsible for maintaining an effective internal control system. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Specifically, our internal control system shall monitor the Company's overall financial position; safeguard its assets against major losses and misappropriation; provide reasonable assurance against material fraud and error; and efficiently monitor and correct non-compliances.

To ensure the efficient and effective operation of our growing business units and functions, relevant internal control policies and procedures, committees as well as working groups are established in order to achieve, monitor and enforce internal controls. These policies and procedures are reviewed from time to time and updated where necessary. All employees are made aware of the policies and procedures in place, with understanding enhanced by staff communications and training.

The Audit Committee is delegated with overseeing the effectiveness of internal controls, while the management is responsible for designing, implementing and maintaining an effective internal control system with reference to the COSO principles. In particular, proper policies and procedures governing the activities of the Executive Committee, Directors, executives, and senior staff, such as delegation of authority, approval of annual and mid-year budgets for all capital and revenue items, handling and dissemination of inside information[1], etc., have been put in place. Management also reviews, updates and improves the internal control system to meet anticipated future challenges.

1 The Company takes proactive precautionary measures in handling and dissemination of inside information. Such information is restricted to a need-to-know basis. The Company has adopted a policy on disclosure of inside information and senior executives are reminded of the compliance of the policy every six months.

We maintain an Internal Audit Department which is independent of our operations and accounting functions. The Internal Auditor reports directly to the Audit Committee. A risk-based internal audit program is approved by the Audit Committee each year. Based on the audit program, the Internal Auditor performs assessment of risks and testing of controls across all business and support units of the Company in order to provide reasonable assurance that adequate controls and governance are in operation. In line with the Company's zero tolerance of fraud and bribery, the Internal Auditor would report or perform relevant investigations if fraud or irregularities are uncovered or suspected.

In 2016, quarterly meetings were held for the Audit Committee to discuss internal audit issues with the Internal Auditor, as well as to enquire on financial and internal control matters with the external auditor. The Audit Committee had four direct discussions with the external auditor in the absence of management. The Audit Committee reported to the Board on key issues arising from these meetings.

There were no significant control failings or weaknesses identified that have not been rectified in 2016. Our internal audit function has been operating effectively.

Annual Assessment

With the confirmation of the management and the foregoing review by the Audit Committee covering all material controls, including financial, operational and compliance controls and risk management functions of the Company and its subsidiaries for the financial year ended December 31, 2016, the Board concluded that effective and adequate internal control and risk management systems had been in operation.

The level of resources, staff qualifications and experience, training programs, and budget of the Company's internal audit and accounting and financial reporting functions were assessed and considered adequate.

3. Code of Conduct

The Company adopted a corporate Code of Conduct in 1994 and has maintained it with regular reviews and updates from time to time as necessary.

The Code of Conduct clearly spells out the Company's policy regarding legal requirements, conflicts of interest, the handling of confidential information and company property, the use of information and communication systems, personal social media activities, our whistleblowing policy, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers and consumers, employment practices, and responsibilities to the community. In essence, it details the Group's philosophy in running its business and acts as a benchmark for all staff and suppliers to follow.

In order to monitor and enforce compliance with the Code of Conduct, functional managers are responsible for ensuring their subordinates fully understand and adhere to the standards and requirements as stipulated. Any violation thereof will result in the employee being disciplined, including termination of employment or reporting to appropriate authorities if necessary. The Executive Directors will also answer directly to any Board member for impartial and efficient handling of complaints received from all shareholders and potential shareholders, customers and consumers, suppliers and contractors, and our employees. As part of our commitment to good governance, all executive staff are required to submit a signed declaration of compliance with the Code of Conduct regarding Transactions in the Company's Shares on a half-yearly basis.

A well-defined whistleblowing mechanism has been put in place for our employees and other related third parties such as contractors and tenants. It is designed to encourage them to confidentially raise any serious concerns about misconduct, fraudulent activities, or malpractices in any matter related to the Group. All reported cases are addressed to the Head of Internal Audit directly and investigated by the Internal Audit Department in complete confidence. Our Internal Audit Department monitors and reports cases to the Audit Committee on a half-yearly basis. The Company has also set up an e-mail account (whistleblowing@hanglung.com) for this purpose.

All staff are made aware of issues pertaining to integrity and the Company's zero-tolerance policy for misconduct through the Code of Conduct, policies, and procedures. Launched in 2013, the Hang Lung Integrity Program was established to enforce the highest standards of integrity and honesty from every process and every employee in Hong Kong and mainland China. In 2016, more than 96,900 training hours were delivered to our employees, of which 193 training hours were delivered as part of the program.

In addition, to make sure that all operations are managed in accordance with a high standard of professional practice and corporate governance, all employees are reminded of the policy governing conflict of interest situations every six months. All executive staff are also required to complete and sign a declaration form every six months declaring their interests, directly or indirectly, with the Company and our subsidiaries and associated companies.

4. Auditors' Remuneration

KPMG was re-appointed as our external auditor by shareholders at the 2016 AGM until the conclusion of the 2017 AGM. It is primarily responsible for providing audit services in connection with the annual consolidated financial statements.

Total remuneration in respect of services provided by the external auditors is as follows:

	Year ended December 31, 2016 HK$ (in million)	Year ended December 31, 2015 HK$ (in million)
Statutory audit services	**12**	12
Non-audit services	**4**	7

(V) Communication with Stakeholders

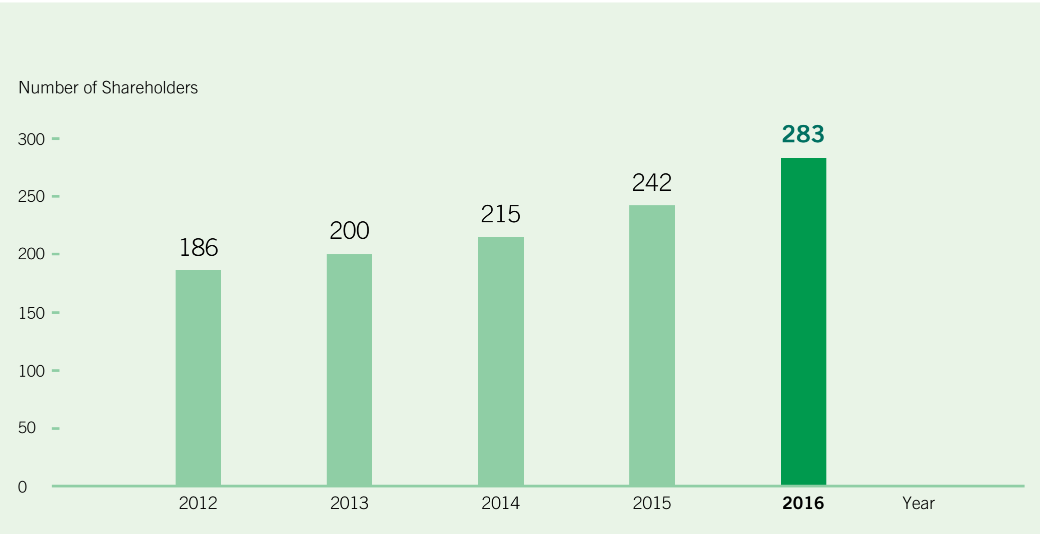
1. Shareholders

The Board has a shareholders communication policy setting out strategies to promote effective communication with shareholders, with the aim of ensuring that shareholders are provided with information about the Company to enable them to engage actively with the Company and to exercise their rights as shareholders in an informed manner. The policy is regularly reviewed to ensure its effectiveness.

AGMs

Our AGM provides a good opportunity for communication between the Board and shareholders. The chairmen of the Board and of its committees are normally present to answer queries raised by shareholders. The external auditor also attends and reports to shareholders at the AGM every year. Notice of the AGM and related papers are sent to shareholders at least 20 clear business days before the meeting. Each separate issue is proposed by a separate resolution by the Chairman. The meeting enjoys strong participation from shareholders.

SHAREHOLDERS PARTICIPATION IN AGMs



In addition to the Chairman's Letter to Shareholders, the Chairman uses the AGM as an opportunity to open a dialogue with shareholders and to elaborate on the outlook of the Group and its business strategies.

2016 AGM

Our last AGM was held on April 28, 2016 at Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong. The meeting was attended by 283 shareholders present in person or by proxy. At the meeting, the Chairman had demanded a poll on each of the resolutions submitted for voting, and the shareholders were provided with detailed procedures for conducting the poll. All of the resolutions tabled at the 2016 AGM, including the adoption of the financial statements, the re-election of Directors, the re-appointment of the auditor, and the renewal of general mandates were voted on by poll, and the results of poll voting were posted on the websites of our Company and of HKEx in the evening of the same day. There are no changes in the Articles of Association in 2016 and the Articles of Association is available on our website and the website of HKEx.

The Board confirms that there are no changes proposed to the Articles of Association at the forthcoming AGM to be held on April 27, 2017. The important shareholders' dates for the coming financial year, which include the Board meetings for considering the payments of interim and final dividends for the year ending December 31, 2017, and the AGM, are expected to be held in around late July 2017, late January 2018, and in April 2018 respectively.

Procedure for Shareholders to Convene General Meetings

Shareholder(s) representing at least 5% of the total voting rights of all the shareholders of the Company can make a request to convene a general meeting pursuant to the Companies Ordinance. The request must state the business to be dealt with at the meeting, signed by the relevant shareholder(s) and deposited at our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Put Forward Proposals in General Meetings

Furthermore, the Companies Ordinance provides that (i) shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders of the Company, or (ii) at least 50 shareholders entitled to vote can put forward proposals for consideration at a general meeting of the Company by sending a request in writing to our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Propose a Person for Election as a Director

According to the Articles of Association, if any shareholder(s) representing not less than 10% of the total voting rights of all the shareholders of the Company wish(es) to propose a person (other than a retiring director) for election as a director (the Candidate) at a general meeting of the Company, the following documents must be lodged at our registered office: (i) a written notice of such a proposal duly signed by the shareholder(s) concerned; and (ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected. The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such an election, and end no later than seven days prior to the date of said meeting.

Enquiries from Shareholders

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered address or by e-mail to our Company at ir@hanglung.com. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings or entitlement to dividend. Relevant contact details are set out under the Listing Information section of this annual report.

2. Investors

Details of shareholders by domicile as at December 31, 2016 are as follows:

	Shareholders		**Shareholdings**	
Domicile	**Number**	**%**	**Number of Shares**	**%**
Hong Kong	1,991	97.84	978,233,709	71.84
Mainland China	7	0.34	138,375	0.01
Macau	4	0.20	116,075	0.01
Taiwan	2	0.10	2,874	0.00
Australia and New Zealand	4	0.20	18,200	0.00
Canada and United States of America	16	0.78	130,423	0.01
South East Asia	1	0.05	33,000	0.00
United Kingdom	3	0.15	5,758	0.00
Others	7	0.34	382,939,828	28.13
TOTAL	**2,035**	**100.00**	**1,361,618,242**	**100.00**

Details of shareholders by holding range as at December 31, 2016 are as follows:

	Shareholders*		Shareholdings*	
Holding Range	**Number**	**%**	**Number of Shares**	**%**
1 - 1,000 shares	459	22.56	232,670	0.02
1,001 - 5,000 shares	692	34.00	2,095,012	0.16
5,001 - 10,000 shares	335	16.46	2,769,990	0.20
10,001 - 100,000 shares	505	24.82	13,798,547	1.01
Over 100,000 shares	44	2.16	1,342,722,023	98.61
TOTAL	**2,035**	**100.00**	**1,361,618,242**	**100.00**

* incorporating, in their respective shareholdings range, 263 participants of Central Clearing and Settlement System holding a total of 810,391,887 shares registered in the name of HKSCC Nominees Limited

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

We are committed to disclosing relevant information on our activities to our shareholders and investors through regular analysts' briefings, press conferences and press releases, e-mails and our website, apart from through our annual and interim reports. All enquiries and proposals received from shareholders, investors, the media or the public are responded to by Executive Directors, the Company Secretary or appropriate key executives.

The Company's information is accessible to all via our website. Besides providing traditional financial data, our website contains the most current information including properties available for sale and leasing, the latest number of issued shares, updated substantial shareholders' interests in shares, corporate brochures, newsletters, details of major corporate events, and frequently asked questions.

MOVING FORWARD

As a long-term player, Hang Lung will continue to strive to live up to its motto, We Do It Right, by extending its concept and vision of excellence in corporate governance in Hong Kong and every city where the Group is operating its world-class projects. We are confident of offering our stakeholders one of the most transparent and well-governed corporations in Greater China.

Profile of the Directors

Mr. Ronnie Chichung Chan

Chairman

Aged 67, Mr. Chan joined the Group in 1972, becoming Chairman in 1991. He also serves as Chairman of Hang Lung Properties Limited, the Group's major publicly listed subsidiary. Mr. Chan is Chairman of the Executive Committee of One Country Two Systems Research Institute, Vice-President of The Real Estate Developers Association of Hong Kong, Co-Chair of the Board of Asia Society and Chairman of its Hong Kong Center. He is also a former Vice President and former Advisor to China Development Research Foundation in Beijing. Mr. Chan sits on the governing or advisory bodies of several think-tanks and universities, including Peterson Institute for International Economics, The Hong Kong University of Science and Technology, and University of Southern California, USA, where he received his MBA. Mr. Chan is the brother of Mr. Gerald Chan, a Non-Executive Director of the Company and the father of Mr. Adriel Chan, an Executive Director of the Company.

Mr. Philip Nan Lok Chen

Managing Director

Aged 61, Mr. Chen joined the Company and its major listed subsidiary, Hang Lung Properties Limited, as Managing Director in July 2010. Mr. Chen has more than 30 years of management experience, mostly in the aviation industry, acquiring a wealth of experience in Hong Kong, Mainland China and beyond. Mr. Chen graduated from the University of Hong Kong in 1977 with a Bachelor of Arts degree and holds a Master's degree in Business Administration from the same university.

Mr. Gerald Lokchung Chan

Non-Executive Director

Aged 65, Mr. Chan has been a Director of the Company since 1986. As co-founder of Morningside, Mr. Chan has been active in venture capital and private equity investments since 1987. He also serves on the advisory boards of numerous universities including the University of California, Los Angeles, Harvard University, Fudan University and also the Chair of Overseers Committee of Morningside College, The Chinese University of Hong Kong. Mr. Chan received his undergraduate training in engineering at the University of California, Los Angeles, and his Doctor of Science degree from Harvard University. He is a Non-Executive Director of Aduro Biotech, Inc. Mr. Chan is the brother of Mr. Ronnie Chan, Chairman of the Group.

Mr. Simon Sik On Ip CBE, JP

Independent Non-Executive Director

Aged 68, Mr. Ip joined the Board in 1998. He is a solicitor and Notary Public. Mr. Ip has a distinguished record of public service. A former Legislative Councillor, past President of the Law Society of Hong Kong, and a past member of the Exchange Fund Advisory Committee and The Advisory Committee on Post-service Employment of Civil Servants, he is the Founding Chairman of the Hong Kong Institute of Education (now known as The Education University of Hong Kong), the Chairman of the Hong Kong Jockey Club, and he also holds honorary positions in two local universities and Tsinghua University. Mr. Ip is an Independent Non-Executive Director of 長飛光纖光纜股份有限公司 (Yangtze Optical Fibre and Cable Joint Stock Limited Company).

Prof. Lap-Chee Tsui OC, GBM, GBS, JP

Independent Non-Executive Director

Aged 66, Prof. Tsui joined the Board as an Independent Non-Executive Director in November 2014. Prof. Tsui was the fourteenth Vice-Chancellor of the University of Hong Kong. He was a member of the Research Institute at The Hospital for Sick Children in Toronto, Canada since 1981, rising to Geneticist-in-Chief of the Hospital in 1996 and Head of the Genetics and Genomic Biology Program in 1998. Prof. Tsui also held academic appointments at the University of Toronto since 1983, was awarded the title of University Professor in 1994 and has held an Emeritus status since 2006. He was also the President of the Human Genome Organization from 2000 to 2002. Prof. Tsui has received numerous awards for his work, including the Royal Society of Canada Centennial Award in 1989, Gairdner International Award in 1990, Cresson Medal of Franklin Institute in 1992, XII Sanremo International Award for Genetic Research in 1993, the Distinguished Scientist Award from the Medical Research Council, Canada in 2000, Killam Prize of Canada Council in 2002 and the European Cystic Fibrosis Society Award in 2009. He was elected as Fellow of the Royal Society of Canada in 1990, Fellow of the Royal Society of London in 1991, Member of Academia Sinica in 1992, Foreign Associate of the National Academy of Sciences of the US in 2004, Foreign Member of the Chinese Academy of Sciences in 2009, and Founding President of The Academy of Sciences of Hong Kong in 2015. Prof. Tsui obtained a bachelor's degree and master's degree in biology from The Chinese University of Hong Kong in 1972 and 1974 respectively. He also obtained a doctorate degree in biological sciences from the University of Pittsburgh in 1979. Prof. Tsui is an Independent Non-Executive Director of China NT Pharma Group Company Limited and PuraPharm Corporation Limited. He was awarded the Grand Bauhinia Medal in July 2016.

Mr. Martin Cheung Kong Liao SBS, JP

Independent Non-Executive Director

Aged 59, Mr. Liao joined the Board as an Independent Non-Executive Director in November 2014. Mr. Liao is elected Deputy (representing Hong Kong Special Administrative Region ("HKSAR")) to the 12th National People's Congress of the People's Republic of China. He has been appointed as a Non-Official Member of the Executive Council of the HKSAR since November 2016. Mr. Liao also serves as a Member of the Legislative Council of the HKSAR and Chairman of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Review Tribunal. He graduated with a Bachelor of Economic Science (Hons) degree and a Master of Laws degree from University College London. Mr. Liao was Called to the Bar in England and Wales in 1984 and was Called to the Bar in Hong Kong in 1985 and is a practising barrister in Hong Kong. He is also an advocate and solicitor admitted in Singapore since 1992. Mr. Liao was awarded the Silver Bauhinia Star in 2014, and appointed Justice of the Peace in 2004.

Prof. Pak Wai Liu SBS, JP

Independent Non-Executive Director

Aged 69, Prof. Liu joined the Board as an Independent Non-Executive Director in March 2015. He is Research Professor and was formerly Pro-Vice-Chancellor of The Chinese University of Hong Kong. He was formerly Director of the Institute of Global Economics and Finance and was appointed Distinguished Fulbright Scholar in 2000-01. Prof. Liu serves on many government advisory bodies. He is the Chairman of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials. Prof. Liu was a past member of the Working Group on Long-Term Fiscal Planning of the HKSAR, the Commission on Strategic Development, the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR, the Provisional Minimum Wage Commission, the Independent Commission on Remuneration for the Members of the District Councils of the HKSAR and the Aviation Development Advisory Committee. He is also a Director of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority and the Shenzhen Finance Institute. He was a Non-Executive Director of the Securities and Futures Commission and Chairman of its Remuneration Committee. Prof. Liu received his AB degree from Princeton University and Ph.D degree from Stanford University in the US. He is an Independent Non-Executive Director of Transport International Holdings Limited and China Zheshang Bank Co., Ltd., and was an Independent Non-Executive Director of Hang Lung Properties Limited, listed subsidiary of the Company. Prof. Liu was awarded the Silver Bauhinia Star (SBS) in 1999, and appointed Justice of Peace (JP) in 2006.

Mr. George Ka Ki Chang

Non-Executive Director

Aged 64, Mr. Chang joined the Board as a Non-Executive Director in March 2015. He is managing director of Morningside Group chaired and co-founded by Mr. Gerald Chan and co-founded by Mr. Ronnie Chan. Mr. Chang started his professional career in a major international accounting firm and has over eight years of experience in public accounting in Hong Kong and Toronto. Prior to joining Morningside Group in 1991, he held senior financial positions in several international manufacturing and trading companies. Mr. Chang received his M.B.A. degree from the University of Wisconsin at Madison and is a member of the American Institute of Certified Public Accountants, Canadian Institute of Chartered Accountants and Hong Kong Institute of Certified Public Accountants. He sits on the board of several private companies in Asia and North America. Mr. Chang formerly served as a board member of the publicly-traded companies and accumulated experience in high technology companies.

Mr. Roy Yang Chung Chen

Non-Executive Director

Aged 53, Mr. Chen joined the Board as a Non-Executive Director in September 2015. Mr. Chen is the Chairman and Chief Executive Officer of Grace Financial Limited specializing in wealth management. He is also a Director of Sterling Enterprises Limited responsible for managing various investments in global markets. Starting his career as merchant banker in the US and UK until joining Sterling Enterprises Limited since 1993, Mr. Chen has accumulated extensive experience in international banking, finance and investment. Mr. Chen has been actively involved in promoting and improving corporate governance with a special interest in family business situations since 2000 and was appointed the founding director of the Family Business Network Pacific Asia Ltd. (FBNPA) from 2008 to 2012. He is also the Chairman of Seeds Foundation and serves on the grants committee of ZeShan Foundation and Seeds Foundation, a member of the Public Shareholders Group of the Securities and Futures Commission of Hong Kong and a member of the Caring Company Scheme Steering Committee and WiseGiving Steering Committee of The Hong Kong Council of Social Service. He previously served as a member of the Listing Committee of Hong Kong Stock Exchange and a member of Takeovers and Mergers Panel of the Securities and Futures Commission of Hong Kong. Mr. Chen received his Bachelor of Arts degree in Economics from Claremont McKenna College, and an MBA from Columbia University in the US.

Mr. Hau Cheong Ho

Executive Director

Aged 57, Mr. Ho joined the Group in 2008 and was appointed to the Board of the Company and of its publicly listed subsidiary, Hang Lung Properties Limited, in September 2010. He is the Chief Financial Officer of the Company and Hang Lung Properties Limited. Mr. Ho possesses more than 30 years of management experience covering a wide range of industries in England, Australia, Hong Kong and Mainland China. He qualified as a chartered accountant in England and Wales and Australia and holds an MBA from the University of Melbourne, Australia and a Bachelor of Commerce Degree in Accounting from the University of Birmingham, UK.

Mr. Adriel Wenbwo Chan

Executive Director

Aged 34, Mr. Chan was appointed to the Board of the Company and of its major listed subsidiary, Hang Lung Properties Limited, on November 19, 2016. He joined the Group in 2010, responsible for leasing and management in Shanghai. Mr. Chan is now mainly responsible for the project departments, including project planning, project construction, cost & controls, and the asset assurance & improvement team, as well as various other initiatives in the Group. Prior to joining the Group, he worked in finance, auditing, and risk management fields. Mr. Chan holds an Executive Master of Business Administration degree jointly awarded by the Kellogg School of Management at Northwestern University, USA and the Hong Kong University of Science and Technology, and a Bachelor of Arts degree in International Relations from University of Southern California, USA. He is a son of Mr. Ronnie Chan, Chairman of the Group.

Profile of Key Executives

Ms. Bella Peck Lim Chhoa

Company Secretary, General Counsel and Assistant Director – Corporate Affairs

Aged 46, Ms. Chhoa joined the Group as Company Secretary, General Counsel and Assistant Director – Corporate Affairs in 2011. She is responsible for overseeing the company secretarial, legal and human resources and training functions of the Group. Prior to joining the Group, she was head of the legal department and company secretary of two other companies listed on The Stock Exchange of Hong Kong Limited for a number of years. Ms. Chhoa is a solicitor qualified to practice in Hong Kong. She holds a Master of Business Administration degree from The Chinese University of Hong Kong and a Bachelor degree in Law from The University of Hong Kong.

Report of the Directors

The Directors have pleasure in submitting their report together with the audited consolidated Financial Statements for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, and through its subsidiaries, property development for sales and leasing, property investment for rental income, and other investments. The Company and its subsidiaries (collectively referred to as the Group) also operate in car park management and property management, and through its joint ventures, are involved in the operation of dry-cleaning.

An analysis of the revenue and trading results of the Group by operating segments during the financial year is set out in Note 3 to the Financial Statements.

PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

A list of principal subsidiaries and joint ventures, together with their places of operations and incorporation and particulars of their issued share capital/registered capital is set out in Notes 33 and 34 to the Financial Statements.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated Financial Statements on pages 142 to 205.

DIVIDENDS

The Directors now recommend a final dividend of HK61 cents per share which, together with the interim dividend of HK19 cents per share paid on September 29, 2016, makes a total of HK80 cents per share in respect of the year ended December 31, 2016. The proposed final dividend, if approved by the shareholders at the AGM on April 27, 2017, will be paid on May 18, 2017 to shareholders whose names appear on the register of members on May 5, 2017.

BUSINESS REVIEW

A fair review of the Group's business and a discussion and analysis of the Group's performance during the year along with the material factors underlying its results and financial position are included in the Review of Operations and Financial Review sections from pages 28 to 67 and pages 70 to 81, respectively, of this annual report. A description of the principal risks and uncertainties facing the Company can be found throughout this annual report, particularly in the Risk Management section from pages 92 to 95. The particulars of important events affecting the Company, which have occurred since the end of the financial year 2016, if any, can also be found in the abovementioned sections and the Notes to the Financial Statements. The outlook of the Group's business is discussed in the Review of Operations section from pages 28 to 67 of this annual report.

An analysis of the Group's performance using financial key performance indicators is provided in the Financial Highlights and Financial Review sections from pages 4 to 5 and pages 70 to 81, respectively, of this annual report. A discussion of the Company's environmental policies and performance and an account of the Company's relationships with its key stakeholders are provided in the Sustainable Development section from pages 84 to 89 of this annual report.

Compliance procedures are in place to ensure adherence to relevant laws and regulations, in particular, those which have a significant impact on the Group. The Audit Committee of the Company is delegated by the Board to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements. Any new enactment of, or changes in the relevant laws and regulations are communicated through regular legal updates to ensure compliance. The legal updates are circulated to all executive staff to ensure that they are aware of the changes and can disseminate relevant information to their subordinates. Reminders to relevant staff on compliance are also sent out regularly, where necessary. Training is provided, as needs arise, to build awareness.

The Group has set up systems and policies to ensure compliance with the relevant laws and regulations which have a significant impact on the Group in conducting its business, including but not limited to, the Buildings Ordinance, the Residential Properties (First-hand Sales) Ordinance, the Competition Ordinance, the Personal Data (Privacy) Ordinance, the Minimum Wage Ordinance, the Employment Ordinance, and the Occupational Safety and Health Ordinance in Hong Kong; and the Anti-Monopoly Law, the Anti-Unfair Competition Law, the Construction Law, the Labour Law and the Trade Union Law in the People's Republic of China. At a corporate level, the Company also complies with the Listing Rules, the Companies Ordinance and the SFO.

TEN-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 206 and 207.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, both the percentage of purchases attributable to the Group's five largest suppliers combined and the percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers combined were less than 30% of the total purchases and total revenue of the Group respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at December 31, 2016 amounted to HK$14,382 million (2015: HK$12,480 million).

DONATIONS

Donations made by the Group during the year amounted to HK$20 million (2015: HK$15 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2016 are set out in Note 17 to the Financial Statements.

BORROWING COSTS CAPITALIZATION

Borrowing costs capitalized by the Group during the year amounted to HK$223 million (2015: HK$444 million).

MAJOR GROUP PROPERTIES

Details of major properties of the Group as at December 31, 2016 are set out on pages 64 to 67.

SHARE CAPITAL

During the year, as a result of the exercise of share options under the Company's share option scheme, 6,700,000 shares (2015: Nil), fully paid, were issued for a total consideration of HK$137,484,000 (2015: Nil).

Details of shares issued by the Company during the year are set out in Note 20 to the Financial Statements.

SHARE CAPITAL OF THE COMPANY'S LISTED SUBSIDIARY

During the year, the Company's listed subsidiary, HLPL issued 400,000 shares (2015: 11,866,000 shares), fully paid, for a total consideration of HK$6,700,000 (2015: HK$205,309,760) as a result of the exercise of share options under HLPL's share option scheme.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Particulars of the share option scheme are set out in Note 25 to the Financial Statements and the paragraphs below.

DIRECTORS

The Directors during the year and up to the date of this report are:
Mr. Ronnie C. Chan
Mr. Philip N.L. Chen
Mr. Gerald L. Chan
Mr. Simon S.O. Ip
Prof. L.C. Tsui
Mr. Martin C.K. Liao
Prof. P.W. Liu
Mr. George K.K. Chang
Mr. Roy Y.C. Chen
Mr. H.C. Ho
Mr. Adriel W. Chan (appointed on November 19, 2016)

The brief biographical details of the Directors are set out on pages 120 to 125 and details of Directors' remuneration are set out in Note 7 to the Financial Statements.

Mr. Adriel W. Chan, being Executive Director newly appointed on November 19, 2016, will retire from the Board at the forthcoming AGM in accordance with article 94 of the Articles of Association and, being eligible, will offer himself for re-election.

In accordance with articles 103 and 104 of the Articles of Association, Mr. Gerald L. Chan, Prof. L.C. Tsui and Mr. Martin C.K. Liao will retire from the Board by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at http://www.hanglunggroup.com under Corporate Governance of the Investor Relations section.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

Save as disclosed, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director or his/her connected entity was materially interested, whether directly or indirectly, subsisted at any time during or at the end of the year.

PERMITTED INDEMNITY

Pursuant to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the Companies Ordinance. Such permitted indemnity provision for the benefit of the Directors was in force during the year and remained in force as of the date of this report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2016, the interests or short positions of each of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)			Hang Lung Properties Limited (Long Position)		
Name of Directors	**Capacity**	**Number of Shares**	**% of Number of Issued Shares**	**Number of Shares under Option** (Note 1)	**Number of Shares**	**% of Number of Issued Shares**	**Number of Shares under Option** (Note 2)
Ronnie C. Chan	Personal	11,790,000	0.87	–	16,330,000	0.36	27,490,000
Philip N.L. Chen	Personal	–	–	–	–	–	21,500,000
Gerald L. Chan	–	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–	–
L.C. Tsui	–	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	–	100,000	–	–
George K.K. Chang	–	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	–	10,450,000
Adriel W. Chan	Personal & Other*	498,428,580	36.61	–	2,507,987,340	55.76	350,000

* Other interests included 498,428,580 shares of the Company and 2,507,987,340 shares of HLPL held/deemed to be held by a trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.

Notes

1. Movement of Options under the Share Option Scheme of the Company

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option			Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
		As at Jan 1, 2016	Exercised during the Year	As at Dec 31, 2016			
11/20/2006	Ronnie C. Chan	6,700,000	6,700,000	–	$20.52	11/20/2007 : 10% 11/20/2008 : 20% 11/20/2009 : 30% 11/20/2010 : 40%	11/19/2016

2. Movement of Options under the Share Option Schemes of Hang Lung Properties Limited

(i) Share Option Scheme adopted on November 22, 2002

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option			Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
		As at Jan 1, 2016	Exercised during the Year	As at Dec 31, 2016			
08/21/2007	Ronnie C. Chan	3,640,000	–	3,640,000	$25.00	08/21/2008 : 10% 08/21/2009 : 20% 08/21/2010 : 30% 08/21/2011 : 40%	08/20/2017
08/21/2007	Ronnie C. Chan	5,600,000	–	5,600,000	$25.00	08/21/2009 : 10% 08/21/2010 : 20% 08/21/2011 : 30% 08/21/2012 : 40%	08/20/2017
09/01/2008	H.C. Ho	300,000	–	300,000	$24.20	09/01/2010 : 10% 09/01/2011 : 20% 09/01/2012 : 30% 09/01/2013 : 40%	08/31/2018
12/31/2008	H.C. Ho	300,000	–	300,000	$17.36	12/31/2010 : 10% 12/31/2011 : 20% 12/31/2012 : 30% 12/31/2013 : 40%	12/30/2018
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	$26.46	02/08/2012 : 10% 02/08/2013 : 20% 02/08/2014 : 30% 02/08/2015 : 40%	02/07/2020
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012 : 10% 07/29/2013 : 20% 07/29/2014 : 30% 07/29/2015 : 40%	07/28/2020
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012 : 10% 09/29/2013 : 20% 09/29/2014 : 30% 09/29/2015 : 40%	09/28/2020
06/13/2011	Ronnie C. Chan Philip N.L. Chen H.C. Ho	4,500,000 4,500,000 3,000,000	– – –	4,500,000 4,500,000 3,000,000	$30.79	06/13/2013 : 10% 06/13/2014 : 20% 06/13/2015 : 30% 06/13/2016 : 40%	06/12/2021

2. Movement of Options under the Share Option Schemes of Hang Lung Properties Limited (continued)

(ii) Share Option Scheme adopted on April 18, 2012

		Number of Shares under Option					
Date Granted (mm/dd/yyyy)	**Name**	**As at Jan 1, 2016**	**Exercised during the Year**	**As at Dec 31, 2016**	**Exercise Price per Share** (HK$)	**Vested Dates** (mm/dd/yyyy)	**Expiry Date** (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan	4,500,000	–	4,500,000	$28.20	06/04/2015 : 10%	06/03/2023
	Philip N.L. Chen	4,500,000	–	4,500,000		06/04/2016 : 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/04/2017 : 30%	
	Adriel W. Chan	200,000	–	200,000		06/04/2018 : 40%	
12/05/2014	Ronnie C. Chan	2,750,000	–	2,750,000	$22.60	12/05/2016 : 10%	12/04/2024
	Philip N.L. Chen	2,500,000	–	2,500,000		12/05/2017 : 20%	
	H.C. Ho	1,850,000	–	1,850,000		12/05/2018 : 30%	
	Adriel W. Chan	150,000	–	150,000		12/05/2019 : 40%	

Save as disclosed above, none of the Directors had, as at December 31, 2016, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2016, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

		Number of Shares or Underlying Shares Held		% of Number of Issued Shares	
Name	Note	**(Long Position)**	**(Short Position)**	**(Long Position)**	**(Short Position)**
Chan Tan Ching Fen	1	498,428,580	–	36.61	–
Cole Enterprises Holdings (PTC) Limited	1	498,428,580	–	36.61	–
Merssion Limited	1	498,428,580	–	36.61	–
Adriel W. Chan	1	498,428,580	–	36.61	–
Kingswick Investment Limited	2	97,965,000	–	7.19	–
Aberdeen Asset Management Plc and its associates	3	231,259,867	–	16.98	–
Dodge & Cox	3	135,909,600	–	10.03	–

Notes

1. These shares were the same parcel of shares held by Merssion Limited which was held under a trust. As Ms. Chan Tan Ching Fen was the founder, Cole Enterprises Holdings (PTC) Limited was the trustee and Mr. Adriel W. Chan was a discretionary beneficiary of the trust, they were deemed to be interested in such shares under the SFO.
2. This company was a wholly-owned subsidiary of Merssion Limited. Its interests were included in 498,428,580 shares held by Merssion Limited.
3. These shares were held in the capacity of investment managers.

Save as disclosed above, as at December 31, 2016, no other interest required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in Note 26 to the Financial Statements. None of these related party transactions constitutes a discloseable connected transaction under the Listing Rules.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 96 to 119.

AUDITOR

The consolidated Financial Statements for the year ended December 31, 2016 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.

By Order of the Board
Bella Peck Lim Chhoa
Company Secretary
Hong Kong, January 26, 2017

Independent Auditor's Report

KPMG

Independent auditor's report to the members of Hang Lung Group Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Hang Lung Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 142 to 205, which comprise the consolidated statement of financial position as at December 31, 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 December 31, 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Valuation of investment properties and investment properties under development

(Refer to note 11 (property, plant and equipment) and note 1(f) (accounting policy))

The key audit matter	How the key audit matter was addressed in our audit
The aggregate fair values of the Group's investment properties and investment properties under development as at December 31, 2016 amounted to HK$149,165 million, representing 80% of the Group's total assets as at that date. The net decrease in fair values recorded in the consolidated statement of profit or loss for the year ended December 31, 2016 amounted to HK$254 million. The Group's investment properties, which are located in Hong Kong and Mainland China, comprise shopping malls, office premises, industrial premises, residential premises and car parking bays. The fair values of the Group's investment properties and investment properties under development were assessed by the management based on independent valuations prepared by an external property valuer. 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 consolidated financial statements and because the determination of the fair values involves significant judgment and estimation, including selecting the appropriate valuation methodology, capitalisation rates and market rents and, for investment properties under development, an estimation of costs to complete each property development project.	Our audit procedures to assess the valuation of investment properties and investment properties under development included the following: • assessing the competence, capability, experience of the locations and types of properties subject to valuation, independence and objectivity of the external property valuer; • evaluating the valuation methodology used by the external property valuer based on our knowledge of other property valuers for similar types of properties; • on a sample basis, comparing the tenancy information included in the valuation models, which included committed rents and occupancy rates, with underlying contracts and related documentation; • discussing the valuations with the external property valuer in a separate private session and challenging key estimates adopted in the valuations, including those relating to market selling prices, market rents and capitalisation rates, by comparing them with historical rates and available market data, taking into consideration comparability and other local market factors, with the assistance of our internal property valuation specialists; and • for investment properties under development, comparing the estimated construction costs to complete each property development project with the Group's updated budgets (see further details set out in the key audit matter below).

Assessing the development costs of investment properties under development in Mainland China

(Refer to note 11 (property, plant and equipment) and note 1(f) (accounting policy))

The key audit matter	How the key audit matter was addressed in our audit
The fair value of the Group's investment properties under development is determined using the direct comparison valuation methodology, with reference to comparable market transactions, to derive the fair value of the property assuming it was completed and, where appropriate, after deducting (1) the estimated development costs to be expended to complete each property development project and (2) the estimated profit margin. Therefore, any increase in the estimated development costs to be expended to complete each property development project compared with the original management approved budgets could have a significant negative impact on the fair value of the Group's investment properties under development and, hence, the results for the year. The Group's investment properties under development, which are located in different cities in Mainland China, comprise shopping malls, office premises, hotel premises and residential premises. We identified the assessing the development costs of the Group's investment properties under development as a key audit matter because the determination of estimated development costs involves significant management judgement and estimation, in particular in relation to project feasibility studies, estimating future development costs to be expended to complete each property development project and the estimated profit margin.	Our audit procedures to assess the development costs of investment properties under development in Mainland China included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over the preparation and monitoring of management budgets and forecasts of construction costs for each investment property under development; • discussing the valuations of investment properties under development with the external property valuer in a separate private session and challenging key estimates adopted in the valuations including those relating to market selling prices, by comparing them with available market data, taking into consideration comparability and other local market factors; • performing a retrospective review for all investment properties under development by comparing the actual construction costs incurred during the current year with those included in the prior year's forecasts in order to assess the accuracy of the Group's budgeting process; • conducting site visits to all investment properties under development and discussing with management and the in-house quantity surveyor the development progress and the development budgets reflected in the latest forecasts for each property development project; and • comparing, on a sample basis, the quantity surveyor's reports for the construction costs incurred for property development projects with the underlying payment records and other documentation relevant to the construction cost accruals and/or payments.

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. We obtained all of the other information prior to the date of this auditor's report apart from "Chairman's Letter to Shareholders". The remaining information is expected to be made available to us after that date.

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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of 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 has no realistic alternative but to do so.

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

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

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

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

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

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

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 for 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 Melissa M C Wu.

KPMG
Certified Public Accountants

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

January 26, 2017

Financial Statements

Consolidated Statement of Profit or Loss

For the year ended December 31, 2016

				For information purpose only (Note 1(b))	
	Note	**2016 HK$ Million**	2015 HK$ Million	**2016 RMB Million**	2015 RMB Million
Revenue	3(a)	**13,648**	9,528	**11,743**	7,692
Direct costs and operating expenses		**(4,310)**	(2,573)	**(3,709)**	(2,080)
Gross profit		**9,338**	6,955	**8,034**	5,612
Other net income	4	**228**	53	**196**	41
Administrative expenses		**(671)**	(728)	**(575)**	(591)
Operating profit before changes in fair value of properties		**8,895**	6,280	**7,655**	5,062
Net (decrease)/increase in fair value of properties	11	**(254)**	676	**(226)**	552
Operating profit after changes in fair value of properties		**8,641**	6,956	**7,429**	5,614
Interest income		**809**	1,142	**692**	926
Finance costs		**(1,202)**	(1,147)	**(1,031)**	(928)
Net interest expense	5	**(393)**	(5)	**(339)**	(2)
Share of profits of joint ventures	12	**129**	256	**110**	209
Profit before taxation	3(a) & 6	**8,377**	7,207	**7,200**	5,821
Taxation	8(a)	**(1,472)**	(1,216)	**(1,259)**	(976)
Profit for the year		**6,905**	5,991	**5,941**	4,845
Attributable to:					
Shareholders	21	**3,713**	3,211	**3,196**	2,603
Non-controlling interests	22	**3,192**	2,780	**2,745**	2,242
		6,905	5,991	**5,941**	4,845
Earnings per share	10(a)				
Basic		**HK$2.73**	HK$2.37	**RMB2.36**	RMB1.92
Diluted		**HK$2.73**	HK$2.37	**RMB2.36**	RMB1.92

The accompanying notes form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the year are set out in note 9.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2016

	Note	2016 HK$ Million	2015 HK$ Million	*For information purpose only (Note 1(b))* 2016 RMB Million	2015 RMB Million
Profit for the year		**6,905**	5,991	**5,941**	4,845
Other comprehensive income	8(d)				
Items that may be reclassified subsequently to profit or loss:					
Net movement in investment revaluation reserve		**–**	(38)	**–**	(30)
Exchange difference arising from translation of foreign subsidiaries/to presentation currency		**(5,972)**	(6,144)	**2,348**	1,784
		(5,972)	(6,182)	**2,348**	1,754
Total comprehensive income for the year		**933**	(191)	**8,289**	6,599
Total comprehensive income attributable to:					
Shareholders		**543**	(39)	**4,553**	3,564
Non-controlling interests		**390**	(152)	**3,736**	3,035
		933	(191)	**8,289**	6,599

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

At December 31, 2016

	Note	2016 HK$ Million	2015 HK$ Million	For information purpose only (Note 1(b)) 2016 RMB Million	2015 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties		**133,005**	137,338	**119,212**	115,631
Investment properties under development		**16,160**	16,709	**14,455**	13,998
Other property, plant and equipment		**1,446**	338	**1,294**	285
	11	**150,611**	154,385	**134,961**	129,914
Interest in joint ventures	12	**3,539**	3,455	**3,180**	2,928
Other assets	13	**1,341**	1,343	**1,205**	1,138
Deferred tax assets	19(b)	**22**	19	**20**	16
		155,513	159,202	**139,366**	133,996
Current assets					
Cash and deposits with banks	14	**24,524**	31,482	**22,010**	26,595
Trade and other receivables	15	**3,958**	1,170	**3,552**	985
Properties for sale	16	**2,374**	3,852	**2,133**	3,264
		30,856	36,504	**27,695**	30,844
Current liabilities					
Bank loans and other borrowings	17	**568**	6,640	**508**	5,611
Trade and other payables	18	**6,761**	7,353	**6,058**	6,182
Taxation payable	19(a)	**982**	577	**881**	485
		8,311	14,570	**7,447**	12,278
Net current assets		**22,545**	21,934	**20,248**	18,566
Total assets less current liabilities		**178,058**	181,136	**159,614**	152,562
Non-current liabilities					
Bank loans and other borrowings	17	**30,551**	30,690	**27,416**	25,915
Deferred tax liabilities	19(b)	**9,494**	10,144	**8,494**	8,503
		40,045	40,834	**35,910**	34,418
NET ASSETS		**138,013**	140,302	**123,704**	118,144
Capital and reserves					
Share capital	20	**4,065**	3,893	**3,164**	3,015
Reserves	21	**71,593**	71,577	**64,651**	60,544
Shareholders' equity		**75,658**	75,470	**67,815**	63,559
Non-controlling interests	22	**62,355**	64,832	**55,889**	54,585
TOTAL EQUITY		**138,013**	140,302	**123,704**	118,144

Philip N.L. Chen
Managing Director

H.C. Ho
Executive Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

	Shareholders' equity					
	Share capital HK$ Million (Note 20)	**Other reserves** HK$ Million (Note 21)	**Retained profits** HK$ Million (Note 21)	**Total** HK$ Million	**Non-controlling interests** HK$ Million (Note 22)	**Total equity** HK$ Million
At January 1, 2015	3,893	7,258	64,875	76,026	68,670	144,696
Profit for the year	–	–	3,211	3,211	2,780	5,991
Net movement in investment revaluation reserve	–	(38)	–	(38)	–	(38)
Exchange difference arising from translation of foreign subsidiaries	–	(3,212)	–	(3,212)	(2,932)	(6,144)
Total comprehensive income for the year	–	(3,250)	3,211	(39)	(152)	(191)
Final dividend in respect of previous year	–	–	(841)	(841)	–	(841)
Interim dividend in respect of current year	–	–	(257)	(257)	–	(257)
Employee share-based payments	–	46	24	70	80	150
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	511	–	511	(1,339)	(828)
Dividends paid to non-controlling interests	–	–	–	–	(2,429)	(2,429)
Repayment to non-controlling interests	–	–	–	–	2	2
At December 31, 2015 and January 1, 2016	**3,893**	**4,565**	**67,012**	**75,470**	**64,832**	**140,302**
Profit for the year	**–**	**–**	**3,713**	**3,713**	**3,192**	**6,905**
Exchange difference arising from translation of foreign subsidiaries	**–**	**(3,170)**	**–**	**(3,170)**	**(2,802)**	**(5,972)**
Total comprehensive income for the year	**–**	**(3,170)**	**3,713**	**543**	**390**	**933**
Final dividend in respect of previous year	**–**	**–**	**(827)**	**(827)**	**–**	**(827)**
Interim dividend in respect of current year	**–**	**–**	**(258)**	**(258)**	**–**	**(258)**
Issue of shares	**172**	**(35)**	**–**	**137**	**–**	**137**
Employee share-based payments	**–**	**44**	**18**	**62**	**41**	**103**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**531**	**–**	**531**	**(1,068)**	**(537)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,840)**	**(1,840)**
At December 31, 2016	**4,065**	**1,935**	**69,658**	**75,658**	**62,355**	**138,013**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

For information purpose only (Note 1(b))

	Shareholders' equity					
	Share capital RMB Million (Note 20)	Other reserves RMB Million (Note 21)	Retained profits RMB Million (Note 21)	Total RMB Million	Non-controlling interests RMB Million (Note 22)	Total equity RMB Million
At January 1, 2015	3,015	3,569	53,820	60,404	54,540	114,944
Profit for the year	–	–	2,603	2,603	2,242	4,845
Net movement in investment revaluation reserve	–	(30)	–	(30)	–	(30)
Exchange difference arising from translation to presentation currency	–	991	–	991	793	1,784
Total comprehensive income for the year	–	961	2,603	3,564	3,035	6,599
Final dividend in respect of previous year	–	–	(673)	(673)	–	(673)
Interim dividend in respect of current year	–	–	(213)	(213)	–	(213)
Employee share-based payments	–	36	20	56	65	121
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	421	–	421	(1,101)	(680)
Dividends paid to non-controlling interests	–	–	–	–	(1,955)	(1,955)
Repayment to non-controlling interests	–	–	–	–	1	1
At December 31, 2015 and January 1, 2016	**3,015**	**4,987**	**55,557**	**63,559**	**54,585**	**118,144**
Profit for the year	**–**	**–**	**3,196**	**3,196**	**2,745**	**5,941**
Exchange difference arising from translation to presentation currency	**–**	**1,357**	**–**	**1,357**	**991**	**2,348**
Total comprehensive income for the year	**–**	**1,357**	**3,196**	**4,553**	**3,736**	**8,289**
Final dividend in respect of previous year	**–**	**–**	**(697)**	**(697)**	**–**	**(697)**
Interim dividend in respect of current year	**–**	**–**	**(223)**	**(223)**	**–**	**(223)**
Issue of shares	**149**	**(30)**	**–**	**119**	**–**	**119**
Employee share-based payments	**–**	**38**	**16**	**54**	**35**	**89**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**450**	**–**	**450**	**(905)**	**(455)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,562)**	**(1,562)**
At December 31, 2016	**3,164**	**6,802**	**57,849**	**67,815**	**55,889**	**123,704**

Consolidated Cash Flow Statement

For the year ended December 31, 2016

	Note	2016 HK$ Million	2015 HK$ Million	For information purpose only (Note 1(b)) 2016 RMB Million	2015 RMB Million
Operating activities					
Cash generated from operations	23	**8,092**	8,215	**6,978**	6,659
Tax paid					
Hong Kong Profits Tax paid		**(427)**	(1,475)	**(366)**	(1,199)
China Income Tax paid		**(637)**	(741)	**(570)**	(587)
Net cash generated from operating activities		**7,028**	5,999	**6,042**	4,873
Investing activities					
Payment for property, plant and equipment		**(2,682)**	(6,188)	**(2,355)**	(5,099)
Net sale proceeds from disposal of property, plant and equipment		**12**	96	**10**	78
Net sale proceeds from disposal of listed investment		**–**	119	**–**	95
Interest received		**855**	1,099	**731**	890
Dividends received from joint ventures		**55**	42	**47**	34
(Advance to)/Repayment from joint ventures		**(11)**	59	**(9)**	47
Net repayment of advances to unlisted investee companies		**2**	–	**2**	–
Dividends received from unlisted investments		**20**	1	**17**	1
Decrease/(Increase) in bank deposits with maturity greater than 3 months		**3,427**	(4,369)	**2,939**	(3,689)
Net cash generated from/(used in) investing activities		**1,678**	(9,141)	**1,382**	(7,643)
Financing activities					
Proceeds from new bank loans and other borrowings		**5,143**	5,704	**4,404**	4,612
Repayment of bank loans		**(10,691)**	(7,962)	**(9,536)**	(6,469)
Proceeds from exercise of share options		**137**	–	**119**	–
Interest and other borrowing costs paid		**(1,399)**	(1,543)	**(1,205)**	(1,253)
Dividends paid		**(1,085)**	(1,098)	**(920)**	(886)
Dividends paid to non-controlling interests		**(1,840)**	(2,429)	**(1,562)**	(1,955)
Decrease in non-controlling interests in subsidiaries		**(537)**	(828)	**(455)**	(680)
Repayment from non-controlling interests		**–**	2	**–**	1
Net cash used in financing activities		**(10,272)**	(8,154)	**(9,155)**	(6,630)
Decrease in cash and cash equivalents		**(1,566)**	(11,296)	**(1,731)**	(9,400)
Effect of foreign exchange rate changes		**(1,875)**	(1,904)	**79**	121
Cash and cash equivalents at January 1		**27,019**	40,219	**22,816**	32,095
Cash and cash equivalents at December 31	14	**23,578**	27,019	**21,164**	22,816

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial adoption of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (note 31).

(b) Basis of preparation of the financial statements

The consolidated financial statements comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, 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 judgments 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 recognized 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.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 28.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared on the following basis in respect of the translation of transactions/balances not denominated in Renminbi:

– assets and liabilities are translated at the closing exchange rates at the end of the reporting period;

– income and expenses are translated at the exchange rates approximating the exchange rates ruling at the dates of the transactions; and

– equity transactions are translated at exchange rates at the dates of the relevant transactions and are not re-translated.

(c) 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 unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, 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. 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and non-controlling interests (Continued)

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 recognized.

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 recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (note 1(j)).

(d) Joint ventures

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

The Group's interests in joint ventures are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the joint ventures' net assets. The consolidated statement of profit or loss includes the Group's share of the post-acquisition, post-tax results of the joint ventures for the year, whereas the Group's share of the post-acquisition, post-tax items of the joint ventures' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in 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 joint venture. For this purpose, the Group's interest in the joint venture 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 joint venture.

When the Group ceases to have 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 recognized in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's share of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities as at the acquisition date.

Goodwill is stated at cost less accumulated impairment losses and is tested regularly for impairment (note 1(j)).

Any excess of the Group's share of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities as at the acquisition date over the cost of a business combination is recognized immediately in profit or loss as a gain on a bargain purchase.

On disposal of an entity, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Properties

1. Investment properties and investment properties under development

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

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

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, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(g).

If an investment property becomes owner-occupied, it is reclassified as other property, plant and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

2. Properties under development for sale

Properties under development for sale are classified under current assets and stated at the lower of cost and net realizable value. Costs include the acquisition cost of land, aggregate cost of development, borrowing costs capitalized (note 1(o)) and other direct expenses. Net realizable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Properties (Continued)

3. Completed properties for sale

Completed properties for sale are classified under current assets and stated at the lower of cost and net realizable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalized (note 1(o)), attributable to unsold properties. Net realizable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

(g) Other property, plant and equipment

1. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 1(j)). 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 recognized in profit or loss on the date of retirement or disposal.

2. 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

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred substantially all the risks and benefits of ownership 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 is accounted for as if held under a finance lease; 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment (Continued)

2. Leased assets (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for as described in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating leases charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized 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.

(h) Depreciation

1. Investment properties

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

2. Other property, plant and equipment

Depreciation on other property, plant and equipment is calculated to write off the cost, less their estimated residual value, if any, on a straight line basis over their estimated useful lives as follows:

Buildings	50 years or unexpired lease term, whichever is shorter
Furniture and equipment	4–20 years
Motor vehicles	5 years

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Financial assets

1. Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2. Other investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the statement of financial position at cost less impairment losses (note 1(j)). Other investments in equity securities are classified as available-for-sale equity securities and are initially recognized at fair value plus transaction costs. At the end of the reporting period, the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity. Dividend income from these investments is recognized directly in profit or loss in accordance with the policy set out in note 1(q). When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is reclassified to profit or loss.

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

(j) Impairment of assets

An assessment is carried out at the end of each reporting period to determine whether there is objective evidence that a current or non-current asset, other than properties carried at revalued amounts, is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired.

If any such indication exists, any impairment loss is determined and recognized as follows:

– For current receivables carried at amortized 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 rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor. If in a subsequent period the amount of impairment loss decreases, the impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

Impairment losses for receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables 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 recognized in profit or loss.

– For available-for-sale equity securities, the cumulative loss that has been recognized in investment revaluation reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss. Impairment loss recognized in profit or loss in respect of available-for-sale equity securities is not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

– For other non-current assets, the recoverable amount 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. An impairment loss is recognized in profit or loss if the carrying amount exceeds the recoverable amount. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized. An impairment loss in respect of goodwill is not reversed.

(k) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less impairment losses for bad and doubtful debts (note 1(j)), except where the receivables are interest-free loans or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (note 1(j)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and 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. 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.

(m) Trade and other payables

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Interest-bearing borrowings

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

(o) Borrowing costs

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

The capitalization 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. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are interrupted or complete.

(p) Financial guarantees issued, provisions and contingent liabilities

1. 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 recognized 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 recognized in accordance with the Group's policies applicable to that category of asset. When no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 1(p)(2) if and when (i) it becomes probable that the holder of 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 recognized, less accumulated amortization.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

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

2. Other provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of 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 the 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.

(q) 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 recognized in profit or loss as follows:

1. Sale of properties

Revenue from sale of completed properties is recognized upon the later of the signing of sale and purchase agreements or the issue of occupation permit 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 passed to the buyer.

2. Rental income

Rental income under operating leases is recognized on a straight line basis over the terms of the respective leases, 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 recognized in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

3. Interest income

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

4. Dividends

Dividends are recognized when the right to receive payment is established.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Taxation

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 recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized 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 utilized, are recognized. 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 and liabilities that affect neither accounting nor taxable profits, 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.

When investment properties and investment properties under development are carried at their fair value in accordance with the accounting policy set out in note 1(f)*(1)*, the amount of deferred tax recognized is measured using the tax rates that would apply on 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 recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Taxation (Continued)

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 utilized. 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 recognized when the liability to pay the related dividends is recognized.

(s) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (functional currency).

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 recognized 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 rate ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

1. assets and liabilities are translated at the closing exchange rates at the end of the reporting period;

2. income and expenses are translated at the exchange rates approximating the exchange rates ruling at the dates of the transactions; and

3. all resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

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 recognized.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Related parties

1. 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.

2. An entity is related to the Group if any of the following conditions applies:

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

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

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

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

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

   (vi) The entity is controlled or jointly controlled by a person identified in note 1(t)(1).

   (vii) A person identified in note 1(t)(1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Segment reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting 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. For disclosure purpose, a reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics and nature of the regulatory environment, or single operating segments which are disclosable separately because they cannot be aggregated or they exceed quantitative thresholds.

(v) Employee benefits

1. *Short term employee benefits and contributions to defined contribution retirement schemes*

Salaries, annual bonuses, paid annual leave, the cost of non-monetary benefits and obligation for contributions to defined contribution retirement schemes, including those payables in mainland China and Hong Kong under relevant legislation, are accrued in the year in which the associated services are rendered by employees of the Group.

2. *Share-based payments*

The fair value of share options granted to employees is measured at grant date, taking into account the terms and conditions upon which the options were granted, and is expensed on a straight line basis over the vesting period taking into account the probability that the options will vest, with a corresponding increase in equity (employee share-based compensation reserve).

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the employee share-based compensation reserve).

At the time when the share options are exercised, the related employee share-based compensation reserve is transferred to share capital. If the options expire or lapse after the vesting period, the related employee share-based compensation reserve is transferred directly to retained profits.

2 CHANGES IN ACCOUNTING POLICIES

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

3 REVENUE AND SEGMENT INFORMATION

The Group manages its businesses according to the nature of services and products provided. Management has determined three reportable operating segments for the measurement of performance and the allocation of resources. The segments are property leasing in mainland China and Hong Kong and property sales in Hong Kong.

Property leasing segment includes property leasing operation. The Group's investment properties portfolio, which mainly consists of retail, office, residential, serviced apartments and carparks, are primarily located in mainland China and Hong Kong. Property sales segment includes development and sale of the Group's trading properties in Hong Kong.

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of properties are not included in segment profits. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

3 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2016 HK$ Million	2015 HK$ Million	**2016 HK$ Million**	2015 HK$ Million
Segment				
Property leasing				
– Mainland China (Note)	**4,427**	4,625	**2,814**	3,005
– Hong Kong	**3,899**	3,705	**3,315**	3,105
	8,326	8,330	**6,129**	6,110
Property sales				
– Hong Kong	**5,322**	1,198	**3,209**	845
Segment total	**13,648**	9,528	**9,338**	6,955
Other net income			**228**	53
Administrative expenses			**(671)**	(728)
Operating profit before changes in fair value of properties			**8,895**	6,280
Net (decrease)/increase in fair value of properties			**(254)**	676
– property leasing in Hong Kong			**204**	947
– property leasing in mainland China			**(798)**	(271)
– upon transfer from completed properties for sale to investment properties			**340**	–
Net interest expense			**(393)**	(5)
Interest income			**809**	1,142
Finance costs			**(1,202)**	(1,147)
Share of profits of joint ventures			**129**	256
Profit before taxation			**8,377**	7,207

Note:

Pursuant to Caishui [2016] No. 36 jointly issued by China's Ministry of Finance and State Administration of Taxation, from May 1, 2016, Value Added Tax (VAT) has replaced Business Tax (BT) to cover all the sectors which were previously falling under the BT regime. The VAT rate for property leasing is 11% and VAT is excluded from revenue. With effect from May 1, 2016, the Group is no longer required to pay BT for property leasing in mainland China.

3 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Total assets by segments

	Total assets	
	2016 **HK$ Million**	2015 HK$ Million
Segment		
Property leasing		
– Mainland China	**89,851**	95,189
– Hong Kong	**60,999**	60,344
	150,850	155,533
Property sales		
– Hong Kong	**4,971**	3,874
Segment total	**155,821**	159,407
Other property, plant and equipment	**1,122**	–
Interest in joint ventures	**3,539**	3,455
Other assets	**1,341**	1,343
Deferred tax assets	**22**	19
Cash and deposits with banks	**24,524**	31,482
Total assets	**186,369**	195,706

4 OTHER NET INCOME

	2016 **HK$ Million**	2015 HK$ Million
Gain on disposal of investment properties	**8**	69
Gain on disposal of listed investments	**–**	62
Dividend income from unlisted investments	**20**	1
Unrealized gain/(loss) on remeasurement of derivative financial instruments (Note)	**203**	(101)
Net exchange (loss)/gain	**(3)**	22
Other net income	**228**	53

Note:

Derivative financial instruments represent cross currency swaps, which were entered into for the purpose of fixing the exchange rate for the Medium Term Note denominated in USD.

5 NET INTEREST EXPENSE

	2016 HK$ Million	2015 HK$ Million
Interest income on bank deposits	**809**	1,142
Interest expense on bank loans and other borrowings	**1,321**	1,470
Other borrowing costs	**104**	121
Total borrowing costs	**1,425**	1,591
Less: Borrowing costs capitalized (Note)	**(223)**	(444)
Finance costs	**1,202**	1,147
Net interest expense	**(393)**	(5)

Note:

The borrowing costs have been capitalized at an average rate of 4.0% (2015: 4.0%) per annum to properties under development.

6 PROFIT BEFORE TAXATION

	2016 HK$ Million	2015 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**1,815**	216
Staff costs, including employee share-based payments of HK$103 million (2015: HK$150 million)	**1,438**	1,395
Depreciation	**57**	55
Auditors' remuneration		
– audit services	**12**	12
– non-audit services	**4**	7
and after crediting:		
Gross rental income from investment properties less direct outgoings of HK$2,197 million (2015: HK$2,220 million), including contingent rentals of HK$318 million (2015: HK$300 million)	**6,129**	6,110

7 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

The Nomination and Remuneration Committee consists of three Independent Non-Executive Directors. The Committee makes recommendation to the Board on the Non-Executive Directors' and Independent Non-Executive Directors' remuneration packages and determines the remuneration package of individual Executive Directors. The emoluments of directors are determined by the scope of responsibility and accountability, and performance of individual Executive Directors, taking into consideration of the Group's performance and profitability, market practice and prevailing business conditions, etc.

(a) Directors' emoluments

Details of directors' emoluments are summarized below:

Name	Fees HK$ Million	Salaries, allowances and benefits in kind HK$ Million	Discretionary bonuses HK$ Million	Group's contributions to retirement scheme HK$ Million	2016 HK$ Million	2015 HK$ Million
Executive Directors						
Ronnie C. Chan	**1.9**	**25.3**	**9.0**	**2.5**	**38.7**	37.6
Philip N.L. Chen	**1.4**	**23.8**	**9.0**	**1.8**	**36.0**	34.5
H.C. Ho	**1.4**	**4.8**	**3.6**	**0.4**	**10.2**	10.1
Adriel W. Chan (Appointed on November 19, 2016)	**0.2**	**0.5**	**0.1**	**–**	**0.8**	–
Non-Executive Directors						
Gerald L. Chan	**0.7**	**–**	**–**	**–**	**0.7**	0.7
George K.K. Chang (Appointed on March 11, 2015)	**0.8**	**–**	**–**	**–**	**0.8**	0.6
Roy Y.C. Chen (Appointed on September 19, 2015)	**0.7**	**–**	**–**	**–**	**0.7**	0.2
Independent Non-Executive Directors						
Simon S.O. Ip	**1.0**	**–**	**–**	**–**	**1.0**	0.9
L.C. Tsui	**0.8**	**–**	**–**	**–**	**0.8**	0.8
Martin C.K. Liao	**0.8**	**–**	**–**	**–**	**0.8**	0.7
P.W. Liu (Appointed on March 11, 2015)	**1.2**	**–**	**–**	**–**	**1.2**	1.5
Ex-Directors						
S.S. Yin (Retired on April 29, 2015)	**–**	**–**	**–**	**–**	**–**	0.4
H.K. Cheng (Retired on April 29, 2015)	**–**	**–**	**–**	**–**	**–**	0.6
Laura L.Y. Chen (Passed away on May 18, 2015)	**–**	**–**	**–**	**–**	**–**	0.7
2016	**10.9**	**54.4**	**21.7**	**4.7**	**91.7**	89.3
2015	11.5	53.9	19.6	4.3	89.3	

7 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2015: three) are existing directors of the Company and the emoluments in respect of the remaining two (2015: two) individuals are as follows:

	2016 HK$ Million	2015 HK$ Million
Salaries, allowances and benefits in kind	**9.0**	8.6
Discretionary bonuses	**2.7**	2.7
Group's contributions to retirement scheme	**0.4**	0.4
	12.1	11.7

The emoluments of the above two (2015: two) individuals are within the following bands:

	Number of individuals	
	2016	2015
HK$4,500,001 – HK$5,000,000	**1**	1
HK$6,500,001 – HK$7,000,000	**–**	1
HK$7,000,001 – HK$7,500,000	**1**	–
	2	2

(c) In addition to the above emoluments, certain directors of the Company were granted share options under the share option schemes of the Company and of Hang Lung Properties Limited ("HLPL"). Details of which are disclosed in note 25(b).

(d) During the years ended December 31, 2016 and 2015, there were no amounts paid to directors and senior executives above for compensation of loss of office and inducement for joining the Group.

8 TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	2016 **HK$ Million**	2015 HK$ Million
Current tax		
Hong Kong Profits Tax	**869**	467
Over-provision in prior years	**(10)**	(8)
	859	459
China Income Tax	**664**	743
	1,523	1,202
Deferred tax		
Changes in fair value of properties	**(145)**	(68)
Other origination and reversal of temporary differences	**94**	82
Total (Note 19(b))	**(51)**	14
Total income tax expense	**1,472**	1,216

Provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2015: 25%) and China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

(b) Share of joint ventures' taxation for the year ended December 31, 2016 of HK$34 million (2015: HK$17 million) is included in the share of profits of joint ventures.

8 TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

(c) Reconciliation between actual tax expense and profit before taxation at applicable tax rates:

	2016 **HK$ Million**	2015 HK$ Million
Profit before taxation	**8,377**	7,207
Tax on profit before taxation at applicable rates	**1,589**	1,469
Tax effect of non-taxable income	**(179)**	(264)
Tax effect of non-deductible expenses	**91**	90
Tax effect of tax losses utilized and other deductible temporary differences	**(180)**	(286)
Tax effect of unrecognized tax losses	**161**	215
Over-provision in prior years	**(10)**	(8)
Actual tax expense	**1,472**	1,216

(d) There is no tax effect relating to the components of the other comprehensive income for the year.

9 DIVIDENDS

(a) Dividends attributable to the year

	2016 **HK$ Million**	2015 HK$ Million
Interim dividend declared and paid of HK19 cents (2015: HK19 cents) per share	**258**	257
Final dividend of HK61 cents (2015: HK61 cents) per share proposed after the end of the reporting period	**831**	827
	1,089	1,084

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

(b) The final dividend of HK$827 million (calculated based on HK61 cents per share and the total number of issued shares as at the dividend pay-out date) for the year ended December 31, 2015 was approved and paid in the year ended December 31, 2016 (2015: HK$841 million).

10 EARNINGS PER SHARE

(a) The calculation of basic and diluted earnings per share is based on the following data:

	2016 HK$ Million	2015 HK$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	3,713	3,211

	Number of shares	
	2016 Million	2015 Million
Weighted average number of shares used in calculating basic earnings per share	1,358	1,355
Effect of dilutive potential shares – share options	–	2
Weighted average number of shares used in calculating diluted earnings per share	1,358	1,357

(b) The underlying net profit attributable to shareholders which excluded changes in fair value of properties net of related deferred tax and non-controlling interests, is calculated as follows:

	2016 HK$ Million	2015 HK$ Million
Net profit attributable to shareholders	3,713	3,211
Effect of changes in fair value of properties	254	(676)
Effect of corresponding deferred tax	(145)	(68)
Effect of changes in fair value of investment properties of joint ventures	4	(96)
	113	(840)
Non-controlling interests	(54)	329
	59	(511)
Underlying net profit attributable to shareholders	3,772	2,700

The earnings per share based on underlying net profit attributable to shareholders are:

	2016	2015
Basic	HK$2.78	HK$1.99
Diluted	HK$2.78	HK$1.99

11 PROPERTY, PLANT AND EQUIPMENT

	Investment properties HK$ Million	Investment properties under development HK$ Million	Others HK$ Million	Total HK$ Million
Cost or valuation:				
At January 1, 2015	128,357	25,611	704	154,672
Exchange adjustment	(4,347)	(1,257)	(13)	(5,617)
Additions	494	4,540	97	5,131
Disposals	(27)	–	(4)	(31)
Net increase in fair value	676	–	–	676
Transfer in/(out)	12,185	(12,185)	–	–
At December 31, 2015 and January 1, 2016	137,338	16,709	784	154,831
Exchange adjustment	**(4,920)**	**(1,019)**	**(59)**	**(5,998)**
Additions	**842**	**1,483**	**205**	**2,530**
Disposals	**(3)**	**–**	**(8)**	**(11)**
Net decrease in fair value	**(594)**	**–**	**–**	**(594)**
Transfer (out)/in (Note)	**–**	**(1,013)**	**1,013**	**–**
Transfer from properties for sale (Note 16)	**342**	**–**	**–**	**342**
At December 31, 2016	**133,005**	**16,160**	**1,935**	**151,100**
Accumulated depreciation:				
At January 1, 2015	–	–	398	398
Exchange adjustment	–	–	(5)	(5)
Charge for the year	–	–	55	55
Written back on disposals	–	–	(2)	(2)
At December 31, 2015 and January 1, 2016	–	–	446	446
Exchange adjustment	**–**	**–**	**(7)**	**(7)**
Charge for the year	**–**	**–**	**57**	**57**
Written back on disposals	**–**	**–**	**(7)**	**(7)**
At December 31, 2016	**–**	**–**	**489**	**489**
Net book value:				
At December 31, 2016	**133,005**	**16,160**	**1,446**	**150,611**
At December 31, 2015	137,338	16,709	338	154,385
Cost or valuation of the property, plant and equipment is made up as follows:				
December 31, 2016				
Valuation	**133,005**	**16,160**	**–**	**149,165**
Cost	**–**	**–**	**1,935**	**1,935**
	133,005	**16,160**	**1,935**	**151,100**
December 31, 2015				
Valuation	137,338	16,709	–	154,047
Cost	–	–	784	784
	137,338	16,709	784	154,831

Note:

In accordance with the Group's accounting policy in note 1(f)*(1)*, certain investment properties under development were reclassified as other property, plant and equipment upon the change in use as evidenced by the commencement of construction for Shenyang Forum 66 hotel.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

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

	Fair value measurement at December 31, 2016		
	Level 1 HK$ Million	**Level 2 HK$ Million**	**Level 3 HK$ Million**
Investment properties	**–**	**133,005**	**–**
Investment properties under development	**–**	**–**	**16,160**

	Fair value measurement at December 31, 2015		
	Level 1 HK$ Million	Level 2 HK$ Million	Level 3 HK$ Million
Investment properties	–	137,338	–
Investment properties under development	–	–	16,709

The Group's policy is to recognize transfers between levels of fair value hierarchy at the time at which they occur. During the year, there were no transfers between levels of fair value hierarchy (2015: transfer from investment properties under development to investment properties of HK$12,185 million upon opening of Dalian Olympia 66 mall and Shenyang Forum 66 office tower).

The investment properties and investment properties under development of the Group were revalued as at December 31, 2016 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis. Management has discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Fair value measurement of properties (Continued)

(ii) *Valuation techniques and inputs used in Level 2 fair value measurements*

The fair value of investment properties is determined by using income capitalization approach with reference to current market rents and capitalization rates using market data.

(iii) *Information about Level 3 fair value measurements*

The fair value of investment properties under development in mainland China is determined by using direct comparison approach, with reference to comparable market transactions as available in the market to derive the fair value of the property assuming it was completed and, where appropriate, after deducting the following items:

– Estimated development costs to be expended to complete the properties that would be incurred by a market participant; and

– Estimated profit margin that a market participant would require to hold and develop the property to completion.

The higher the estimated development costs or profit margin, the lower the fair value of investment properties under construction.

The main Level 3 unobservable inputs used by the Group are as follows:

The total estimated development costs of each of the Group's investment properties under development ranged from HK$1.7 billion to HK$16.9 billion (2015: HK$3.7 billion to HK$17.8 billion). The estimates are largely consistent with the budgets developed internally by the Group based on management experience and knowledge of market conditions.

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

	Investment properties under development – Mainland China	
	2016 **HK$ Million**	2015 HK$ Million
At January 1	**16,709**	25,611
Exchange adjustment	**(1,019)**	(1,257)
Additions	**1,483**	4,540
Increase in fair value	**–**	–
Transfer to Level 2	**–**	(12,185)
Transfer to other property, plant and equipment	**(1,013)**	–
At December 31	**16,160**	16,709
Total gains for the year included in profit or loss	**–**	–

Fair value adjustments of investment properties and investment properties under development is recognized in "Net (decrease)/increase in fair value of properties" in the consolidated statement of profit or loss.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Investment properties		Investment properties under development	
	2016 **HK$ Million**	2015 HK$ Million	**2016** **HK$ Million**	2015 HK$ Million
In Hong Kong				
– long term leases (over 50 years)	**38,328**	38,124	**–**	–
– medium term leases (10 to 50 years)	**22,155**	21,609	**–**	–
Outside Hong Kong				
– long term leases (over 50 years)	**1,156**	1,234	**798**	824
– medium term leases (10 to 50 years)	**71,366**	76,371	**15,362**	15,885
	133,005	137,338	**16,160**	16,709

(c) The net book value of other property, plant and equipment of the Group included long term leases of HK$9 million (2015: HK$9 million) in respect of land and building held in Hong Kong, medium term leases of HK$1,127 million (2015: HK$7 million) and long term leases of HK$37 million (2015: HK$41 million) in respect of land and buildings held outside Hong Kong respectively.

Property leasing revenue includes gross rental income from investment properties of HK$8,326 million (2015: HK$8,330 million).

(d) The Group leases out its properties under operating leases. Leases typically run for an initial period of two to five years, with some having the option to renew, at which time all terms are renegotiated. Long term leases contain rent review or adjustment clauses and the Group has a regular proportion of its leases up for renewal each year. Certain leases include contingent rentals calculated with reference to the revenue of tenants.

At the end of the reporting period, the Group's total future minimum lease income under non-cancellable operating leases in respect of investment properties were as follows:

	2016 **HK$ Million**	2015 HK$ Million
Within 1 year	**5,585**	6,085
After 1 year but within 5 years	**7,007**	7,279
After 5 years	**602**	823
	13,194	14,187

12 INTEREST IN JOINT VENTURES

	2016 HK$ Million	2015 HK$ Million
Share of net assets	2,764	2,691
Amounts due from joint ventures	782	771
Amounts due to joint ventures	(7)	(7)
	3,539	3,455

Amounts due from joint ventures are unsecured, interest-free with no fixed terms of repayment and classified as non-current assets as they are not expected to be recoverable within the next twelve months.

Amounts due to joint ventures are unsecured and interest-free with no fixed terms of repayment.

Details of principal joint ventures are set out in note 34. The aggregate financial information related to the Group's share of joint ventures that are not individually material are as follows:

	2016 HK$ Million	2015 HK$ Million
Non-current assets	3,531	3,404
Current assets	296	319
Non-current liabilities	(920)	(906)
Current liabilities	(143)	(126)
Net assets	2,764	2,691

	2016 HK$ Million	2015 HK$ Million
Revenue	266	236
Profit and total comprehensive income for the year	129	256

13 OTHER ASSETS

	2016 HK$ Million	2015 HK$ Million
Advances to unlisted investee companies less provision	**159**	161
Intangible assets (Note)	**1,182**	1,182
	1,341	1,343

Note:

Intangible assets represent goodwill arising from the Group's additions in equity interests in its subsidiary, HLPL, for transactions before July 1, 2009. At the end of the reporting period, an impairment test was performed by comparing the goodwill with its recoverable amount and no impairment was recorded.

14 CASH AND DEPOSITS WITH BANKS

	2016 HK$ Million	2015 HK$ Million
Time deposits	**22,876**	29,911
Cash at banks	**1,648**	1,571
Cash and deposits with banks in the consolidated statement of financial position	**24,524**	31,482
Less: Bank deposits with maturity greater than 3 months	**(946)**	(4,463)
Cash and cash equivalents in the consolidated cash flow statement	**23,578**	27,019

During the year, the Group's cash and deposits with banks were interest-bearing at an average rate of 2.9% (2015: 3.2%) per annum. The currencies of cash and deposits with banks at the year end date were as follows:

	2016 HK$ Million	2015 HK$ Million
Hong Kong Dollars equivalent of:		
Renminbi	**21,563**	30,164
Hong Kong Dollars	**2,950**	1,306
United States Dollars	**11**	12
	24,524	31,482

The Group holds Renminbi bank deposits to meet its ongoing payment obligations in relation to its development projects in mainland China.

After deducting cash and deposits from bank loans and other borrowings, the net debt position of the Group at the end of the reporting period was as follows:

	2016 HK$ Million	2015 HK$ Million
Bank loans and other borrowings (Note 17)	**31,119**	37,330
Less: Cash and deposits	**(24,524)**	(31,482)
Net Debt	**6,595**	5,848

15 TRADE AND OTHER RECEIVABLES

(a) Included in trade and other receivables are trade receivables (based on the due date) with the following terms:

	2016 **HK$ Million**	2015 HK$ Million
Not past due or less than 1 month past due (Note)	**2,621**	42
1 – 3 months past due	**22**	8
More than 3 months past due	**13**	4
	2,656	54

Note:

Not past due or less than one month past due receivables mainly represented property sales receivables for residential units sold in the second half of 2016. Most of the sales receivables would be settled over the next few months upon sales completion.

The balance of bad and doubtful debts is insignificant. The details on the Group's credit policy are set out in note 27(c).

(b) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$279 million (2015: HK$298 million).

16 PROPERTIES FOR SALE

	2016 **HK$ Million**	2015 HK$ Million
Completed properties for sale located in Hong Kong		
– long term leases (over 50 years)	**1,658**	1,810
– medium term leases (10 to 50 years)	**712**	2,038
	2,370	3,848
Completed properties for sale located outside Hong Kong		
– medium term leases (10 to 50 years)	**4**	4
	2,374	3,852

During the year ended December 31, 2016, properties for sale with a total cost of HK$2 million (2015: Nil) were transferred to investment properties due to change in use. The fair value of these properties at the date of transfer was HK$342 million and the difference between the fair value of these properties and their previous carrying amount was recognized in the consolidated statement of profit or loss.

17 BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, bank loans and other borrowings were unsecured and repayable as follows:

	2016 HK$ Million	2015 HK$ Million
Bank loans (Note (a))		
Within 1 year or on demand	**568**	6,645
After 1 year but within 2 years	**4,484**	2,074
After 2 years but within 5 years	**12,374**	13,883
Over 5 years	**1,189**	2,264
	18,615	24,866
Other borrowings (Note (b))		
After 1 year but within 2 years	**375**	–
After 2 years but within 5 years	**4,918**	810
Over 5 years	**7,451**	11,929
	12,744	12,739
	31,359	37,605
Less: unamortized front end fees	**(240)**	(275)
Total bank loans and other borrowings	**31,119**	37,330
Amount due within 1 year included under current liabilities	**(568)**	(6,640)
	30,551	30,690

(a) All bank loans are interest-bearing at rates ranging from 0.7% to 5.9% (2015: 0.8% to 7.1%) per annum during the year.

Certain of the Group's borrowings are attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels. During the year, all these covenants have been complied with by the Group.

At December 31, 2016, the Group had HK$13,052 million (2015: HK$18,115 million) committed undrawn banking facilities.

(b) A wholly-owned subsidiary of HLPL has a US$3 billion (2015: US$3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the bonds have been issued with coupon rates ranged from 2.95% to 4.75% (2015: 2.95% to 4.75%) per annum under the Program.

18 TRADE AND OTHER PAYABLES

	2016 HK$ Million	2015 HK$ Million
Creditors and accrued expenses (Note (a))	**4,563**	5,116
Deposits received (Note (b))	**2,198**	2,237
	6,761	7,353

(a) Creditors and accrued expenses include retention money payable of HK$307 million (2015: HK$533 million) which is not expected to be settled within one year.

(b) Deposits received of HK$1,289 million (2015: HK$1,341 million) are not expected to be settled within one year.

Included in trade and other payables are trade creditors with the following aging analysis:

	2016 HK$ Million	2015 HK$ Million
Due within 1 month to 3 months	**1,690**	2,150
Due after 3 months	**1,855**	583
	3,545	2,733

19 TAXATION IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation

	2016 HK$ Million	2015 HK$ Million
Provision for Hong Kong Profits Tax	**610**	179
Provision for China Income Tax	**372**	398
	982	577

(b) Deferred taxation

	2016 HK$ Million	2015 HK$ Million
Deferred tax liabilities	**9,494**	10,144
Deferred tax assets	**(22)**	(19)
Net deferred tax liabilities	**9,472**	10,125

19 TAXATION IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred taxation (Continued)

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

	Depreciation allowances in excess of related depreciation HK$ Million	Revaluation of properties HK$ Million	Future benefit of tax losses HK$ Million	Others HK$ Million	Total HK$ Million
At January 1, 2015	1,672	8,911	(2)	123	10,704
Exchange adjustment	(70)	(519)	–	(4)	(593)
Charged/(Credited) to profit or loss (Note 8(a))	115	(68)	–	(33)	14
At December 31, 2015 and January 1, 2016	1,717	8,324	(2)	86	10,125
Exchange adjustment	**(76)**	**(524)**	**–**	**(2)**	**(602)**
Charged/(Credited) to profit or loss (Note 8(a))	**113**	**(145)**	**–**	**(19)**	**(51)**
At December 31, 2016	**1,754**	**7,655**	**(2)**	**65**	**9,472**

Included in "Others" are mainly deferred tax liabilities recognized in respect of undistributed profits of foreign investment enterprises in mainland China.

(c) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of HK$5,510 million (2015: HK$4,855 million) sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilized is not probable at December 31, 2016. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in mainland China expire five years after the relevant accounting year end date.

20 SHARE CAPITAL

Movements of the Company's ordinary shares are set out below:

	2016		2015	
	Number of shares Million	Amount of share capital HK$ Million	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	1,355	3,893	1,355	3,893
Shares issued under share option scheme	7	172	–	–
At December 31	1,362	4,065	1,355	3,893

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

21 RESERVES

(a) The Group

	Other reserves							
	Investment revaluation reserve HK$ Million	Exchange reserve HK$ Million	Employee share-based compensation reserve HK$ Million	General reserve HK$ Million	Other capital reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2015	38	4,741	387	275	1,817	7,258	64,875	72,133
Profit for the year	–	–	–	–	–	–	3,211	3,211
Net movement in investment revaluation reserve	(38)	–	–	–	–	(38)	–	(38)
Exchange difference arising from translation of foreign subsidiaries	–	(3,212)	–	–	–	(3,212)	–	(3,212)
Total comprehensive income for the year	(38)	(3,212)	–	–	–	(3,250)	3,211	(39)
Final dividend in respect of previous year	–	–	–	–	–	–	(841)	(841)
Interim dividend in respect of current year	–	–	–	–	–	–	(257)	(257)
Employee share-based payments	–	–	46	–	–	46	24	70
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	–	–	–	511	511	–	511
At December 31, 2015 and January 1, 2016	–	1,529	433	275	2,328	4,565	67,012	71,577
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**3,713**	**3,713**
Exchange difference arising from translation of foreign subsidiaries	**–**	**(3,170)**	**–**	**–**	**–**	**(3,170)**	**–**	**(3,170)**
Total comprehensive income for the year	**–**	**(3,170)**	**–**	**–**	**–**	**(3,170)**	**3,713**	**543**
Final dividend in respect of previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(827)**	**(827)**
Interim dividend in respect of current year	**–**	**–**	**–**	**–**	**–**	**–**	**(258)**	**(258)**
Issue of shares	**–**	**–**	**(35)**	**–**	**–**	**(35)**	**–**	**(35)**
Employee share-based payments	**–**	**–**	**44**	**–**	**–**	**44**	**18**	**62**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**–**	**–**	**–**	**531**	**531**	**–**	**531**
At December 31, 2016	**–**	**(1,641)**	**442**	**275**	**2,859**	**1,935**	**69,658**	**71,593**

21 RESERVES (Continued)

(a) The Group (Continued)

The retained profits for the Group at December 31, 2016 included HK$551 million (2015: HK$468 million) in respect of statutory reserves of the subsidiaries in mainland China.

The exchange reserve of the Group comprises the exchange differences arising from the translation of the financial statements of the Group's entities relating to mainland China.

The employee share-based compensation reserve comprises the fair value of share options granted which are not yet exercised, as explained in note 1(v). The general reserve was derived from retained profits and is distributable. The other capital reserve represents any difference between the cost of the additional investment and the carrying amount of the net assets acquired at the date of exchange when acquiring an additional non-controlling interest in an existing subsidiary.

(b) The Company

	Other reserves				
	Employee share-based compensation reserve HK$ Million	General reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2015	35	862	897	10,752	11,649
Profit and total comprehensive income for the year	–	–	–	1,964	1,964
Final dividend in respect of previous year	–	–	–	(841)	(841)
Interim dividend in respect of current year	–	–	–	(257)	(257)
At December 31, 2015 and January 1, 2016	35	862	897	11,618	12,515
Profit and total comprehensive income for the year	**–**	**–**	**–**	**2,987**	**2,987**
Final dividend in respect of previous year	**–**	**–**	**–**	**(827)**	**(827)**
Interim dividend in respect of current year	**–**	**–**	**–**	**(258)**	**(258)**
Employee share-based payments	**(35)**	**–**	**(35)**	**–**	**(35)**
At December 31, 2016	**–**	**862**	**862**	**13,520**	**14,382**

The aggregate amount of the Company's reserves available for distribution to equity shareholders of the Company at December 31, 2016 was HK$14,382 million (2015: HK$12,480 million).

21 RESERVES (Continued)

Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure access to finance at a reasonable cost.

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

The Group monitors its capital structure by reviewing its leveraging ratio (net debt to equity and debt to equity) and cash flow requirements, taking into account its future financial obligations and commitments. Net debt represents bank loans and other borrowings less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

The Group has a net debt position as at December 31, 2016 (Note 14). Net debt to equity ratio and debt to equity ratio as at December 31, 2016 were 4.8% (2015: 4.2%) and 22.5% (2015: 26.6%), respectively. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

22 NON-CONTROLLING INTERESTS

Non-controlling interests represent the equity interests attributable to other shareholders, including their share of profit or loss, in respect of the subsidiaries not wholly-owned by the Group. Details of movement of non-controlling interests are set out in the consolidated statement of changes in equity.

23 CASH GENERATED FROM OPERATIONS

	2016 HK$ Million	2015 HK$ Million
Profit before taxation	8,377	7,207
Adjustments for:		
Gain on disposal of investment properties	(8)	(69)
Gain on disposal of listed investments	–	(62)
Bank interest income	(809)	(1,142)
(Gain)/Loss on remeasurement of derivative financial instruments	(203)	101
Dividend income from unlisted investments	(20)	(1)
Finance costs	1,202	1,147
Depreciation	57	55
Loss on disposal of other property, plant and equipment	1	2
Net decrease/(increase) in fair value of properties	254	(676)
Share of profits of joint ventures	(129)	(256)
Employee share-based payments	103	150
Decrease in properties for sale	1,531	170
(Increase)/Decrease in trade and other receivables	(2,810)	777
Increase in creditors and accrued expenses	502	552
Increase in deposits received	44	260
Cash generated from operations	8,092	8,215

24 COMMITMENTS

At the end of the reporting period, capital commitments not provided for in the financial statements were as follows:

	2016 HK$ Million	2015 HK$ Million
Contracted for	6,349	1,540
Authorized but not contracted for	30,781	37,927
	37,130	39,467

The above commitments include mainly the land costs and construction related costs to be incurred in respect of the Group's development of its properties in various cities in mainland China.

25 EMPLOYEE BENEFITS

(a) Retirement benefits

The Group operates a defined contribution provident fund scheme for its employees. The assets of the scheme are held separately from those of the Group by an independent corporate trustee and managed by professional fund managers.

Contributions are made by both the employer and the employees at a certain percentage of employees' basic salaries, the percentage varying with their length of service. When an employee leaves the scheme prior to his or her interest in the Group's contributions being fully vested, forfeited contributions are refunded to the Group. Total contributions made by the Group for the year amounted to HK$29 million (2015: HK$26 million) and forfeited sums refunded to the Group amounted to HK$2 million (2015: HK$1 million).

A master trust Mandatory Provident Fund Scheme (the "MPF Scheme") is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of HK$30,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. Total MPF contributions made by the Group for the year amounted to HK$7 million (2015: HK$6 million).

As the Group's provident fund scheme is an MPF Exempted Occupational Retirement Scheme (the "ORSO Scheme"), eligibility for membership of the ORSO and MPF schemes is identical. New employees are offered a one-off option to join either the ORSO or the MPF scheme.

Staff in the Company's subsidiaries operating in mainland China are members of a retirement benefits scheme (the "Mainland RB Scheme") operated by the local municipal government in mainland China. The only obligation of the subsidiaries in mainland China is to contribute a certain percentage of their payroll to Mainland RB Scheme to fund the retirement benefits. The local municipal government in mainland China undertakes to assume the retirement benefits obligations of all existing and future retired employees of subsidiaries in mainland China. Total contributions made by subsidiaries in mainland China for the year amounted to HK$55 million (2015: HK$55 million).

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits

The Company

The share option scheme adopted by the Company on November 24, 2000 has expired. No further options shall be offered thereunder, but in all other respects the provisions of the scheme shall remain in full force and effect and all options granted prior to such expiration and not exercised at the expiry date shall remain valid.

Under the scheme, the board of directors (the "Board") of the Company is authorized to grant options to selected participants, including employees and directors of any company in the Group, to subscribe for shares of the Company as incentives or rewards for their contributions to the Group. The exercise price of the options is determined by the Board at the time of grant, and shall be the higher of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The period open for acceptance of the option and amount payable thereon, the vesting period, the exercisable period and the number of shares subject to each option are determined by the Board at the time of grant.

Hang Lung Properties Limited

The share option scheme adopted by the Company's subsidiary, HLPL, on November 22, 2002 (the "2002 Share Option Scheme") was terminated upon the adoption of a new share option scheme on April 18, 2012 (the "2012 Share Option Scheme", together with the 2002 Share Option Scheme are referred to as the "Schemes"). No further options shall be offered under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid. The 2012 Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and expiring on the tenth anniversary thereof.

The purposes of the Schemes are to enable HLPL to grant options to selected participants as incentives or rewards for their contributions to HLPL group, to attract skilled and experienced personnel, to incentivize them to remain with HLPL group and to motivate them to strive for the future development and expansion of HLPL group by providing them with the opportunity to acquire equity interests in HLPL.

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

Hang Lung Properties Limited (Continued)

Under the Schemes, the Board of HLPL is authorized to grant options to selected participants, including employees and directors of any company in HLPL group, subject to the terms and conditions such as performance targets as the Board of HLPL may specify on a case-by-case basis or generally. The exercise price of the options is determined by the Board of HLPL at the time of grant, and shall not be less than the higher of the nominal value of HLPL shares, the closing price of HLPL shares at the date of grant and the average closing price of HLPL shares for the five business days immediately preceding the date of grant. The period open for acceptance of the option and amount payable thereon, the vesting period, the exercisable period and the number of HLPL shares subject to each option are determined by the Board of HLPL at the time of grant.

As at the date of this report, the total number of HLPL shares available for issue under the 2012 Share Option Scheme is 277,926,253 shares, representing 6.18% of the total number of issued shares of HLPL. The total number of HLPL shares issued and to be issued upon exercise of options (including both exercised and outstanding) granted to each participant in any 12-month period shall not exceed 1% of HLPL shares in issue.

1. The movement of share options of the Company during the year is as follows:

	Number of share options				
Date granted	Outstanding on January 1, 2016	Exercised	**Outstanding on December 31, 2016**	Period during which options are exercisable	Exercise price (HK$)
November 20, 2006	6,700,000	(6,700,000)	–	November 20, 2007 to November 19, 2016	20.52
Total	6,700,000	(6,700,000)	–		

All the above options may vest after one to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were cancelled during the year.

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

(i) Movements in the number of share options of the Company outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**20.52**	**6,700,000**	20.52	6,700,000
Exercised	**20.52**	**(6,700,000)**	–	–
Outstanding at December 31	**–**	**–**	20.52	6,700,000
Exercisable at December 31	**–**	**–**	20.52	6,700,000

(ii) The weighted average closing price of the shares immediately before the date of exercise by the director during the year was HK$24.66. No share options were exercised by the employee during the year.

The weighted average closing share price at the date of exercise for share options during the year was HK$24.67.

2. The movements of share options of HLPL during the year are as follows:

(i) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2016	Exercised	Forfeited/ Lapsed	**Outstanding on December 31, 2016**	Period during which options are exercisable	Exercise price (HK$)
November 14, 2006 to March 19, 2007	1,725,000	(400,000)	(435,000)	**890,000**	November 14, 2007 to March 18, 2017	16.75 – 22.55
August 21, 2007 to December 31, 2008	30,722,000	–	(200,000)	**30,522,000**	August 21, 2008 to December 30, 2018	17.36 – 27.90
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	32,018,000	–	(668,000)	**31,350,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	77,845,000	(400,000)	(1,303,000)	**76,142,000**		

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

(i) 2002 Share Option Scheme (Continued)

All the above options may vest after one/two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were cancelled during the year.

During the year, 868,000 options were forfeited upon cessations of the grantees' employments and 435,000 options lapsed due to the expiry of the period for exercising the options.

Movements in the number of share options of HLPL outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**26.90**	**77,845,000**	25.77	91,613,000
Exercised	**16.75**	**(400,000)**	17.30	(11,866,000)
Forfeited	**24.72**	**(868,000)**	32.08	(1,902,000)
Lapsed	**16.75**	**(435,000)**	–	–
Outstanding at December 31	**26.99**	**76,142,000**	26.90	77,845,000
Exercisable at December 31	**26.99**	**76,142,000**	26.46	69,837,800

No share options were exercised by the directors during the year. The weighted average closing price of the shares of HLPL immediately before the dates of exercise by the employees during the year was HK$18.27 (2015: HK$21.44).

The weighted average closing share price of HLPL at the dates of exercise for share options during the year was HK$18.47 (2015: HK$17.23).

The weighted average remaining contractual life of HLPL options outstanding at the end of the reporting period was 2.7 years (2015: 3.7 years).

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

(ii) *2012 Share Option Scheme*

Date granted	Number of share options: Outstanding on January 1, 2016	Forfeited/ Lapsed	**Outstanding on December 31, 2016**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	31,580,000	(1,810,000)	**29,770,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	30,350,000	(2,416,000)	**27,934,000**	December 5, 2016 to December 4, 2024	22.60
Total	61,930,000	(4,226,000)	**57,704,000**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options of HLPL were granted or cancelled during the year.

During the year, 4,226,000 options were forfeited upon cessations of the grantees' employments.

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

	2016		2015	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**25.46**	**61,930,000**	25.45	66,020,000
Forfeited	**25.00**	**(4,226,000)**	25.30	(4,090,000)
Outstanding at December 31	**25.49**	**57,704,000**	25.46	61,930,000
Exercisable at December 31	**26.87**	**11,724,000**	28.20	3,158,000

The weighted average remaining contractual life of options of HLPL outstanding at the end of the reporting period was 7.1 years (2015: 8.1 years).

(iii) In respect of share options of the Company and HLPL granted to the directors of the Company, who were also directors of HLPL, the related charge recognized for the year ended December 31, 2016, estimated in accordance with the Group's accounting policy in note 1(v)(2) was as follows:

(1) Mr. Ronnie C. Chan, HK$10.9 million (2015: HK$16.6 million);

(2) Mr. Philip N.L. Chen, HK$10.6 million (2015: HK$20.4 million);

(3) Mr. H.C. Ho, HK$7.3 million (2015: HK$12.2 million); and

(4) Mr. Adriel W. Chan, HK$0.1 million (2015: Nil).

(iv) The valuation of share option granted was estimated at the date of grant using a Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted.

26 RELATED PARTY TRANSACTIONS

Except for the emoluments to directors and key management disclosed in notes 7 and 25(b) and the transactions and balances already disclosed elsewhere in the financial statements, the Group did not have any related party transactions during the years in its ordinary course of business.

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to interest rate, liquidity, credit and currency risks arises in the normal course of the Group's business. The Group has policies and practices approved by management as described below in managing these risks.

(a) Interest rate risk

The Group's interest rate risk arises primarily from deposits with banks and floating rate bank borrowings. Interest rate trends and movements are closely monitored and, if appropriate, existing borrowings will be replaced with new bank facilities when favorable pricing opportunities arise. In addition, the Group maintains the Medium Term Note Program which facilitates the Group to mitigate future interest rate volatility and re-financing risks.

The interest rates of interest-bearing financial assets and liabilities are disclosed in notes 14 and 17.

Based on the simulations performed at year end in relation to the Group's bank deposits and borrowings, it was estimated that the impact of a 100 basis-point increase in market interest rates from the rates applicable at the year end date, with all other variables held constant, would increase the Group's profit after taxation and total equity by approximately HK$64 million (2015: HK$81 million).

This analysis is based on a hypothetical situation, as in practice market interest rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

– changes in market interest rates affect the interest income and interest expense of floating rate financial instruments and bank borrowings; and

– all other financial assets and liabilities are held constant.

The analysis was performed on the same basis for 2015.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk

The Group manages its surplus cash centrally and the liquidity risk of the Company and its subsidiaries at the corporate level. The objective is to ensure that an adequate amount of cash and committed bank facilities are available to meet all funding requirements. Significant flexibility is achieved through diverse sources of committed credit lines for capturing future expansion opportunities.

		Contractual undiscounted cash flow				
	Carrying amount HK$ Million	**Total HK$ Million**	**Within 1 year HK$ Million**	**Between 1 and 2 years HK$ Million**	**Between 2 and 5 years HK$ Million**	**Over 5 years HK$ Million**
Bank loans and other borrowings	**31,119**	**36,778**	**1,798**	**6,028**	**19,817**	**9,135**
Trade and other payables	**6,761**	**6,761**	**5,165**	**872**	**541**	**183**
At December 31, 2016	**37,880**	**43,539**	**6,963**	**6,900**	**20,358**	**9,318**

		Contractual undiscounted cash flow				
	Carrying amount HK$ Million	Total HK$ Million	Within 1 year HK$ Million	Between 1 and 2 years HK$ Million	Between 2 and 5 years HK$ Million	Over 5 years HK$ Million
Bank loans and other borrowings	37,330	44,165	7,943	3,285	17,661	15,276
Trade and other payables	7,353	7,353	5,479	1,061	615	198
At December 31, 2015	44,683	51,518	13,422	4,346	18,276	15,474

(c) Credit risk

The Group's credit risk is primarily attributable to trade receivables with tenants and deposits held with reputable banks and financial institutions.

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. Proceeds from property sales are receivable pursuant to the terms of the sale and purchase agreements. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Except for sale of properties developed by the Group, it does not hold any collateral over the receivables. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

Surplus cash is placed with reputable banks and financial institutions in accordance with pre-determined limits based on credit ratings and other factors to minimize concentration risk.

The Group does not provide any other guarantee which would expose the Group to material credit risk.

There are no significant concentrations of credit risk within the Group.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(d) Currency risk

Currency risk arises from assets and liabilities denominated in a currency other than the functional currency of the Group's entities to which they related. The Group has bonds outstanding amounting to US$1,000 million (2015: US$1,000 million). The currency risk arising from the USD denominated bonds is hedged by back-to-back USD/HKD cross currency swaps.

The Group engages in property development and investments in mainland China through its local subsidiaries whose net assets are exposed to currency risk. In addition, the Group has Renminbi deposits of RMB19,349 million (2015: RMB25,480 million), for which there are currency risks but which are held to meet its ongoing Renminbi payment obligations in relation to its development projects in mainland China. Where appropriate, the Group seeks to minimize its exposure to currency risk in mainland China through borrowings denominated in Renminbi.

Management estimated that a 5% (2015: 5%) appreciation / depreciation of Renminbi against Hong Kong dollar would increase / decrease the Group's equity attributable to shareholders by HK$2,290 million (2015: HK$2,525 million).

The above analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2015.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Fair value

The fair value of the Group's financial instruments are measured at the end of the reporting period on a recurring basis, categorized 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 and determined with reference to the observability and significance of the inputs used in the valuation technique is 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.

(i) Financial assets and liabilities measured at fair value

The fair value of listed investments, classified as available-for-sale equity securities, are measured using quoted prices in an active market for identical assets (level 1).

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement of fair value is recognized immediately in the consolidated statement of profit or loss.

The fair value of cross currency swaps as at December 31, 2016 of HK$102 million recorded under "Trade and other receivables" (December 31, 2015: HK$101 million recorded under "Trade and other payables") in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

During the year, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at December 31, 2015 and 2016.

28 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

Notes 11(a), 25(b) and 27(e) contain information about the assumptions and their risk relating to valuation of investment properties and investment properties under development, fair value of share options granted and listed investments and derivative financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Properties held for sale

The Group determines the net realizable value of unsold properties based on estimation of future selling price less costs to be incurred in relation to the sale, with reference to the prevailing market data and market survey reports available from independent property valuers.

(b) Impairment of assets

The Group tests regularly whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is determined using fair value less costs to sell or value-in-use calculations as appropriate. These calculations require the use of estimates.

(c) Income taxes

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and judgment is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(d) Recognition of deferred tax assets

The amount of the deferred tax assets included in the consolidated statement of financial position of the Group is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences and unused tax losses can be utilized. The recognition of deferred tax assets requires the Group to make judgments based on the assessment of future financial performance, the amount of future taxable profits and the timing of when these will be realized.

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

At December 31, 2016

	Note	**2016** **HK$ Million**	2015 HK$ Million
Non-current asset			
Interest in subsidiaries	30	**18,832**	16,817
Current liabilities			
Trade and other payables		**14**	13
Total assets less current liabilities		**18,818**	16,804
Non-current liabilities			
Amounts due to subsidiaries	30(b)	**371**	396
NET ASSETS		**18,447**	16,408
Capital and reserves			
Share capital	20	**4,065**	3,893
Reserves	21	**14,382**	12,515
TOTAL EQUITY		**18,447**	16,408

Philip N.L. Chen
Managing Director

H.C. Ho
Executive Director

30 INTEREST IN SUBSIDIARIES

	2016 HK$ Million	2015 HK$ Million
Unlisted shares, at cost	**181**	181
Amounts due from subsidiaries (Note (a))	**18,651**	16,636
	18,832	16,817

Details of principal subsidiaries are set out in note 33.

The following table lists out the information relating to HLPL in which the Group has material non-controlling interest (NCI). The summarized financial information presented below represents the amounts before any inter-company elimination.

	2016 HK$ Million	2015 HK$ Million
NCI percentage at the end of the reporting period	**44.9%**	45.7%
Non-current assets	**144,291**	147,726
Current assets	**30,616**	36,292
Current liabilities	**(7,827)**	(12,000)
Non-current liabilities	**(34,935)**	(37,126)
Net assets	**132,145**	134,892
Carrying amount of NCI	**59,333**	61,646
Revenue	**13,059**	8,948
Profit for the year	**6,607**	5,545
Total comprehensive income for the year	**845**	(185)
Profit allocated to NCI	**2,967**	2,534
Dividend paid to NCI	**1,840**	2,429
Net cash flow:		
generated from operating activities	**6,735**	5,460
generated from/(used in) investing activities	**1,613**	(9,334)
used in financing activities	**(10,033)**	(7,331)

(a) Amounts due from subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current assets as they are not expected to be recoverable within the next twelve months.

(b) Amounts due to subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current liabilities as they are not expected to be repaid within the next twelve months.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2016

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

		Effective for accounting periods beginning on or after
Amendments to HKAS 7	Statements of cash flows: Disclosure initiative	January 1, 2017
HKFRS 9	Financial Instruments	January 1, 2018
HKFRS 15	Revenue from contracts with customers	January 1, 2018
HKFRS 16	Leases	January 1, 2019

The adoption of HKFRS 9, HKFRS 16 and amendments to HKAS 7 is unlikely to have a significant impact on the consolidated financial statements. In respect of revenue recognition of sale of completed properties, the current policy is set out in note 1(q). Under HKFRS 15, revenue from sale of goods or provision of services will be recognized when the customer obtains control of the promised good or service 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 of the timing of recognition of revenue arising from sale of completed properties.

32 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on January 26, 2017.

33 PRINCIPAL SUBSIDIARIES

At December 31, 2016

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Akihiro Company Limited	2	100	100	Property development & leasing	Hong Kong
Antonis Limited*	10,000	55.1	–	Property leasing	Hong Kong
AP City Limited	2	55.1	–	Property leasing	Hong Kong
AP Joy Limited	2	55.1	–	Property development & leasing	Hong Kong
AP Properties Limited				Property development & leasing	Hong Kong
‘A’ shares	34	55.1	–		
‘B’ shares	6	55.1	–		
AP Star Limited*	2	55.1	–	Investment holding	Hong Kong
AP Success Limited	2	55.1	–	Property leasing	Hong Kong
AP Universal Limited*	2	55.1	–	Property leasing	Hong Kong
AP Win Limited*	1,000,000	55.1	–	Property leasing	Hong Kong
AP World Limited	2	55.1	–	Property development	Hong Kong
Bayliner Investment Ltd.*	US$1	100	100	Investment holding	British Virgin Islands
Believecity Limited*	2	100	–	Investment holding & securities trading	Hong Kong
Bonna Estates Company Limited	1,000,000	55.1	–	Property leasing	Hong Kong
Caddo Enterprises, Limited*	4,000,000	55.1	–	Property leasing	Hong Kong
Cititop Limited	2	55.1	–	Property development & leasing	Hong Kong
Cokage Limited*	2	100	100	Investment holding	Hong Kong
Country Bond Development Limited				Investment holding	Hong Kong
‘A’ shares	990	54.1	–		
‘B’ share	1	55.1	–		
Country First Enterprises Limited	2	100	–	Investment holding	Hong Kong
Country Link Enterprises Limited	5,000,000	57.1	–	Investment holding	Hong Kong
Curicao Company Limited*	2	100	–	Investment holding	Hong Kong
Dokay Limited*	2	55.1	–	Property leasing	Hong Kong
Dynamia Company Limited	2	100	100	Property development & leasing	Hong Kong

33 PRINCIPAL SUBSIDIARIES (Continued)

At December 31, 2016

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Ease Smart Development Limited				Investment holding	Hong Kong
'A' share	1	100	–		
'B' share	1	55.1	–		
Easegood Enterprises Limited	2	55.1	–	Investment holding	Hong Kong
Ever Brilliant Investment Limited	2	100	100	Investment holding	Hong Kong
Folabs Limited*	2	100	–	Property leasing	Hong Kong
Fu Yik Company Limited*	3	55.1	–	Property leasing	Hong Kong
Gala Ruby Limited*	2	55.1	–	Investment holding	Hong Kong
Glory View Properties Limited*	2	100	100	Property leasing	Hong Kong
Gowily Limited	2	55.1	–	Property leasing	Hong Kong
Grand Centre Limited	4	55.1	–	Property leasing	Hong Kong
Grand Hotel Group Limited	10,200	55.1	–	Apartment operating & management	Hong Kong
Grand Hotel Holdings Limited				Investment holding	Hong Kong
'A' shares	62,163,123	55.1	–		
'B' shares	6,000,000	55.1	–		
Great Cheer Development Limited	2	100	100	Property development	Hong Kong
Hang Chui Company Limited	2	55.1	–	Property leasing	Hong Kong
Hang Far Company Limited*	2	55.1	–	Investment holding	Hong Kong
Hang Fine Company Limited	200	55.1	–	Property leasing	Hong Kong
Hang Kong Company Limited*	2	100	–	Investment holding	Hong Kong
Hang Kwok Company Limited*	10,000	55.1	–	Property leasing	Hong Kong
Hang Lung (Administration) Limited	10,000	55.1	–	Management services	Hong Kong
Hang Lung (China) Limited	2	100	100	Investment holding	Hong Kong
Hang Lung (Dalian) Limited	1	55.1	–	Investment holding	Hong Kong
Hang Lung Enterprises Limited*	2	100	100	Investment holding	Hong Kong
Hang Lung Financial Services Limited	2	100	100	Financial services	Hong Kong
Hang Lung Investments Limited*	2	100	100	Investment holding	Hong Kong

33 PRINCIPAL SUBSIDIARIES (Continued)

At December 31, 2016

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Hang Lung (Jiangsu) Limited	1	55.1	–	Investment holding	Hong Kong
Hang Lung (Jinan) Limited	1	55.1	–	Investment holding	Hong Kong
Hang Lung (Kunming) Limited	1	55.1	–	Investment holding	Hong Kong
Hang Lung (Liaoning) Limited	1	55.1	–	Investment holding	Hong Kong
Hang Lung (Shenyang) Limited	2	55.1	–	Investment holding	Hong Kong
Hang Lung (Tianjin) Limited	2	55.1	–	Investment holding	Hong Kong
Hang Lung (Wuhan) Limited	1	55.1	–	Investment holding	Hong Kong
Hang Lung (Wuxi) Limited	1	55.1	–	Investment holding	Hong Kong
Hang Lung Park-In Limited	2	55.1	–	Property leasing	Hong Kong
Hang Lung Project Management Limited*	10,000	55.1	–	Project management	Hong Kong
Hang Lung Properties Limited	4,497,575,670	55.1	–	Investment holding	Hong Kong
Hang Lung Property Management Limited*	100,000	55.1	–	Property management	Hong Kong
Hang Lung Real Estate Agency Limited*	2	55.1	–	Property agencies	Hong Kong
Hang Lung Treasury Limited	2	100	100	Financial services	Hong Kong
Hebo Limited	2	100	100	Property development	Hong Kong
HL Enterprises Limited*	2	100	100	Investment holding	Hong Kong
HL Mortgage (HTG) Limited*	2	100	100	Financial services	Hong Kong
HL Mortgage (NH) Limited*	2	100	100	Financial services	Hong Kong
HL Mortgage (NP) Limited*	2	100	100	Financial services	Hong Kong
HLP (China) Administrative Limited	1	55.1	–	Management services	Hong Kong
HLP (China) Limited	2	55.1	–	Investment holding	Hong Kong
HLP Finance Limited#	US$1	55.1	–	Financial services	British Virgin Islands
HLP Financial Services Limited	RMB1	55.1	–	Financial services	Hong Kong
HLP Treasury Limited	2	55.1	–	Financial services	Hong Kong
HLP Treasury Services Limited*	2	55.1	–	Investment holding	Hong Kong
Hoi Sang Limited*	2	55.1	–	Investment holding	Hong Kong
Kindstock Limited*	2	100	–	Investment holding	Hong Kong

33 PRINCIPAL SUBSIDIARIES (Continued)

At December 31, 2016

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Lockoo Limited*	1,000,002	55.1	–	Property development	Hong Kong
Luckyson Investments Limited	10,000	100	–	Investment holding	Hong Kong
Lungsun Mortgage (PV) Limited*	20	89.7	–	Financial services	Hong Kong
Mansita Limited*	2	55.1	–	Property leasing	Hong Kong
Modalton Limited	2	55.1	–	Property leasing	Hong Kong
Monafat Limited*	2	55.1	–	Property leasing	Hong Kong
Nikco Limited	2	100	–	Property leasing	Hong Kong
Palex Limited*	2	55.1	–	Property leasing	Hong Kong
Pocaliton Limited	2	55.1	–	Property leasing	Hong Kong
Prosperland Housing Limited	1,560,000	100	100	Investment holding	Hong Kong
Purotat Limited*	2	100	100	Investment holding	Hong Kong
Rago Star Limited	2	55.1	–	Property leasing	Hong Kong
Scotat Limited	2	89.7	–	Investment holding	Hong Kong
Stanman Properties Limited	20	100	100	Property development & leasing	Hong Kong
Stooket Limited	2	55.1	–	Property leasing	Hong Kong
Success Cosmos Development Limited*	2	100	100	Property development	Hong Kong
Tegraton Limited	2	55.1	–	Property leasing	Hong Kong
Topnic Limited	2	100	100	Property leasing	Hong Kong
Wai Luen Investment Company, Limited*	100,000	55.1	–	Property leasing	Hong Kong
Yangli Limited*	2	55.1	–	Property leasing	Hong Kong
Yee Fly Investment Limited*	1,000	100	100	Investment holding & securities trading	Hong Kong

33 PRINCIPAL SUBSIDIARIES (Continued)

At December 31, 2016

Wholly Foreign Owned Enterprises in mainland China	Registered Capital	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Dalian Hang Lung Properties Ltd.	RMB4,136,877,355	55.1	–	Property development & leasing	Mainland China
Kunming Hang Ying Properties Ltd.	RMB5,187,321,800	55.1	–	Property development	Mainland China
Liaoning Hang Lung Properties Ltd.	RMB5,382,096,324	55.1	–	Property development & leasing	Mainland China
Shandong Hang Lung Properties Ltd.	US$385,000,000	55.1	–	Property development & leasing	Mainland China
Shenyang Hang Lung Properties Ltd.	US$349,990,000	55.1	–	Property development & leasing	Mainland China
Tianjin Hang Lung Properties Ltd.	HK$4,229,600,000	55.1	–	Property development & leasing	Mainland China
Wuxi Hang Lung Properties Ltd.	RMB3,837,746,261	55.1	–	Property development & leasing	Mainland China
Wuxi Hang Ying Properties Ltd.	RMB492,716,180	55.1	–	Property development	Mainland China
Hubei Hang Lung Property Development Co., Ltd.	RMB4,850,000,000	55.1	–	Property development	Mainland China

Equity Joint Ventures in mainland China	Registered Capital (US$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Shanghai Hang Bond Property Development Co., Ltd.	167,004,736	53.8	–	Property development & leasing	Mainland China
Shanghai Heng Cheng Real Estate Development Co., Ltd.	17,766,000	70	–	Property development	Mainland China
Shanghai Kong Hui Property Development Co., Ltd.	165,000,000	53.7	–	Property development & leasing	Mainland China

Operated in Hong Kong

* Not audited by KPMG

The above list gives the principal subsidiaries of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

34 PRINCIPAL JOINT VENTURES

At December 31, 2016

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Daily Win Development Limited	400	25	–	Property leasing	Hong Kong
Hang Hing Mortgage (TH) Limited	2	50	–	Financial services	Hong Kong
Hang Lung-Hakuyosha Dry Cleaning Limited	519,000	50	–	Dry and laundry cleaning	Hong Kong
Metro Classic Holdings Limited	US$1	20	–	Property development	British Virgin Islands
Metro Trade International Limited	US$60	20	–	Property development	British Virgin Islands
Newfoundworld Finance Limited	100,000	20	–	Financial services	Hong Kong
Newfoundworld Holdings Limited	2,000,000	20	–	Investment holding	Hong Kong
Newfoundworld Investment Holdings Limited	US$5	20	–	Investment holding	British Virgin Islands
Newfoundworld Limited	2,000,000	20	–	Property development	Hong Kong
Pure Jade Limited	1,000,000	20	–	Property development	Hong Kong
Star Play Development Limited	3	18.4	–	Property leasing	Hong Kong

The above companies are not audited by KPMG.

The above list gives the principal joint ventures of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

Ten-Year Financial Summary

in HK$ million (unless otherwise stated)	For the years ended December 31 **2016**	2015	2014
CONSOLIDATED STATEMENT OF PROFIT OR LOSS			
Revenue			
Property leasing	8,326	8,330	7,792
Property sales	5,322	1,198	9,814
	13,648	**9,528**	**17,606**
Gross profit			
Property leasing	6,129	6,110	5,987
Property sales	3,209	845	7,419
	9,338	**6,955**	**13,406**
Underlying net profit attributable to shareholders	**3,772**	**2,700**	**5,730**
Effect of changes in fair value of properties	(59)	511	1,095
Net profit attributable to shareholders	**3,713**	**3,211**	**6,825**
Dividends for the year/period	(1,089)	(1,084)	(1,097)
Retained profits for the year/period	**2,624**	**2,127**	**5,728**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Net assets employed (Note 2)			
Investment properties	133,005	137,338	128,357
Investment properties under development	16,160	16,709	25,611
Properties for sale	2,374	3,852	4,068
Other assets	10,306	6,325	7,014
	161,845	164,224	165,050
Other liabilities	(17,237)	(18,074)	(20,582)
	144,608	**146,150**	**144,468**
Financed by			
Shareholders' equity	75,658	75,470	76,026
Non-controlling interests	62,355	64,832	68,670
Net debt/(cash)	6,595	5,848	(228)
	144,608	146,150	144,468
Number of shares issued (in million)	1,362	1,355	1,355
PER SHARE DATA			
Basic earnings (HK$)	$2.73	$2.37	$5.04
Dividends (HK cents)	80¢	80¢	81¢
Interim	19¢	19¢	19¢
Final	61¢	61¢	62¢
Shareholders' equity (HK$)	$55.5	$55.7	$56.1
Net assets (HK$)	$101.3	$103.5	$106.8
Dividend payout ratio	29%	34%	16%
Underlying dividend payout ratio	29%	40%	19%
FINANCIAL INDICATORS			
Net debt to equity	4.8%	4.2%	0.0%
Debt to equity	22.5%	26.6%	27.7%
Interest cover (times)	14	14	25
Return on average shareholders' equity	4.9%	4.2%	9.3%

Notes:

1. In November 2011, the Board of Directors approved the change of the Group's financial year end date from June 30 to December 31. Thus, the Group has a six-month financial period from July 1 to December 31, 2011.
2. Net assets employed are presented by excluding net debt/cash.

For the years ended December 31		July – December	For the years ended June 30			
2013	2012	2011 (Note 1)	2011	2010	2009	2008
7,216	6,711	3,168	5,711	5,069	4,685	4,186
2,518	1,275	193	3	7,511	11	6,367
9,734	**7,986**	**3,361**	**5,714**	**12,580**	**4,696**	**10,553**
5,731	5,313	2,503	4,574	4,096	3,813	3,347
1,521	847	150	2	5,256	3	3,426
7,252	**6,160**	**2,653**	**4,576**	**9,352**	**3,816**	**6,773**
3,071	**3,564**	**1,000**	**1,733**	**3,695**	**1,454**	**2,555**
1,486	1,698	578	1,796	9,444	1,105	4,961
4,557	**5,262**	**1,578**	**3,529**	**13,139**	**2,559**	**7,516**
(1,079)	(1,066)	(512)	(1,025)	(1,017)	(941)	(941)
3,478	**4,196**	**1,066**	**2,504**	**12,122**	**1,618**	**6,575**
115,818	106,102	101,833	94,003	88,633	69,958	66,136
30,478	24,482	23,613	21,524	15,326	7,570	5,658
5,717	6,139	6,145	5,994	5,886	7,714	6,848
7,248	5,997	5,348	5,572	4,815	3,802	4,109
159,261	142,720	136,939	127,093	114,660	89,044	82,751
(17,533)	(15,643)	(14,226)	(14,269)	(13,377)	(8,441)	(10,892)
141,728	**127,077**	**122,713**	**112,824**	**101,283**	**80,603**	**71,859**
70,572	65,224	60,510	58,972	52,973	40,640	36,782
65,836	64,391	60,658	61,225	49,372	38,129	35,275
5,320	(2,538)	1,545	(7,373)	(1,062)	1,834	(198)
141,728	127,077	122,713	112,824	101,283	80,603	71,859
1,350	1,350	1,348	1,348	1,339	1,334	1,334
$3.38	$3.90	$1.17	$2.62	$9.83	$1.92	$5.64
80¢	79¢	38¢	76¢	76¢	70.5¢	70.5¢
19¢	19¢	–	19¢	19¢	16.5¢	16.5¢
61¢	60¢	38¢	57¢	57¢	54¢	54¢
$52.3	$48.3	$44.9	$43.7	$39.6	$30.5	$27.6
$101.0	$96.0	$89.9	$89.2	$76.4	$59.0	$54.0
24%	20%	32%	29%	8%	37%	13%
35%	30%	51%	59%	28%	65%	37%
3.9%	0.0%	1.4%	0.0%	0.0%	2.8%	0.4%
33.0%	29.0%	22.9%	17.4%	10.5%	14.6%	14.6%
23	60	44	63	33	21	31
6.7%	8.4%	5.3%	6.3%	28.1%	6.6%	22.8%

Glossary

FINANCIAL TERMS

Finance cost	Total of interest expense on total borrowings and other borrowing costs, net of amount capitalized
Total borrowings	Total of bank loans and other borrowings, net of unamortized other borrowing costs
Net debt	Total borrowings net of cash and deposits with banks
Net profit attributable to the shareholders	Profit for the year (after tax) less amounts attributable to non-controlling interests
Underlying net profit attributable to shareholders	Net profit attributable to the shareholders excluded changes in fair value of properties net of related deferred tax and non-controlling interests

FINANCIAL RATIOS

$$\text{Basic earnings per share} = \frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Debt to equity} = \frac{\text{Total borrowings}}{\text{Total equity}}$$

$$\text{Net asset per share} = \frac{\text{Net assets}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Net debt to equity} = \frac{\text{Net debt}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Operating profit before changes in fair value of properties}}{\text{Finance cost before capitalization less interest income}}$$

GENERAL TERMS

AGM	annual general meeting of the Company
Articles of Association	the articles of association of the Company
connected transaction	has the meaning ascribed to it in the Listing Rules
Board	board of Directors of the Company
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company	Hang Lung Group Limited
Director(s)	director(s) of the Company or otherwise as the context may require
ERM	enterprise risk management
ESG Guide	Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules
Group	the Company and its subsidiaries
HKEx	Hong Kong Exchanges and Clearing Limited
HKSAR	the Hong Kong Special Administrative Region of the People's Republic of China
HLPL	Hang Lung Properties Limited (the Company's listed subsidiary)
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Stock Exchange	The Stock Exchange of Hong Kong Limited
UK	the United Kingdom
US or **USA**	the United States of America

Corporate Information

DIRECTORS

Ronnie C. Chan *(Chairman)*
Philip N.L. Chen *(Managing Director)*
Gerald L. Chan#
Simon S.O. Ip *CBE, JP**
L.C. Tsui *OC, GBM, GBS, JP**
Martin C.K. Liao *SBS, JP**
P.W. Liu *SBS, JP**
George K.K. Chang#
Roy Y.C. Chen#
H.C. Ho
Adriel W. Chan

Non-Executive Director
* *Independent Non-Executive Director*

AUDIT COMMITTEE

Simon S.O. Ip *CBE, JP (Chairman)*
L.C. Tsui *OC, GBM, GBS, JP*
P.W. Liu *SBS, JP*
George K.K. Chang

NOMINATION AND REMUNERATION COMMITTEE

P.W. Liu *SBS, JP (Chairman)*
Simon S.O. Ip *CBE, JP*
Martin C.K. Liao *SBS, JP*

AUTHORIZED REPRESENTATIVES

Philip N.L. Chen
Bella P.L. Chhoa

COMPANY SECRETARY

Bella P.L. Chhoa

REGISTERED OFFICE

28th Floor, Standard Chartered Bank Building
4 Des Voeux Road Central, Hong Kong
Tel : 2879 0111
Fax : 2868 6086

INTERNET ADDRESS

Website: http://www.hanglunggroup.com
Email address: HLGroup@hanglung.com

AUDITOR

KPMG
Certified Public Accountants

Financial Calendar

2016

JUL

Announcement of interim results	July 28, 2016

SEP

Interim dividend paid	September 29, 2016

2017

JAN

Announcement of annual results	January 26, 2017

APR

Latest time for lodging transfers (for attending and voting at annual general meeting)	4:30 p.m. on April 25, 2017
Closure of share register (for attending and voting at annual general meeting)	April 26 to 27, 2017 (both days inclusive)
Annual general meeting (Details are set out in the notice of annual general meeting accompanying this annual report)	11:00 a.m. on April 27, 2017

MAY

Latest time for lodging transfers (for final dividend)	4:30 p.m. on May 4, 2017
Closure of share register (for final dividend)	May 5, 2017
Proposed final dividend payable	May 18, 2017

Listing Information

At December 31, 2016

1,361,618,242 shares listed on The Stock Exchange of Hong Kong Limited

STOCK CODE

Hong Kong Stock Exchange: 00010
Reuters : 0010.HK
Bloomberg : 10HK

BOARD LOT SIZE (SHARE)

1,000

AMERICAN DEPOSITARY RECEIPT (ADR)

Sponsored Level-1 (Over the Counter)
CUSIP Number/Ticker Symbol: 41043E102/HNLGY
ADR to Underlying Share Ratio: 1:5
Depositary Bank: The Bank of New York Mellon
Website: http://www.adrbnymellon.com

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Tel: 2862 8555
Fax: 2865 0990

INVESTOR RELATIONS CONTACT

C.F. Kwan
Email address: ir@hanglung.com

Share Information

	Share Price High HK$	Share Price Low HK$	Total Trading Volume Number of Shares ('000)
2016			
First quarter	25.20	19.46	142,151
Second quarter	24.50	20.05	82,675
Third quarter	30.95	22.70	71,107
Fourth quarter	32.35	26.15	206,273
Share Price as at December 31, 2016:			**HK$27.00**
Market Capitalization as at December 31, 2016:			**HK$36.76 billion**

	Share Price High HK$	Share Price Low HK$	Total Trading Volume Number of Shares ('000)
2015			
First quarter	37.80	33.50	83,132
Second quarter	41.95	33.65	48,747
Third quarter	36.55	25.80	88,664
Fourth quarter	29.40	24.10	73,713
Share Price as at December 31, 2015:			**HK$25.20**
Market Capitalization as at December 31, 2015:			**HK$34.14 billion**

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STOCK CODE
00010

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