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

2017 FINAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's reported profit attributable to equity shareholders for the year ended 31 December 2017 amounted to HK$30,433 million, representing an increase of HK$8,517 million or 39% over HK$21,916 million for the previous year. Reported earnings per share were HK$7.61 (2016: HK$5.48 as adjusted for the bonus issue in 2017).

Excluding the fair value change (net of non-controlling interests and tax) of investment properties and investment properties under development, the Group's underlying profit attributable to equity shareholders for the year ended 31 December 2017 was HK$19,557 million, representing an increase of HK$5,388 million or 38% over HK$14,169 million for the previous year. Underlying earnings per share were HK$4.89 (2016: HK$3.54 as adjusted for the bonus issue in 2017).

DIVIDENDS

The Board recommends the payment of a final dividend of HK$1.23 per share to shareholders whose names appear on the Register of Members of the Company on Monday, 11 June 2018, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the interim dividend of HK$0.48 per share already paid, the total dividend for the year ended 31 December 2017 will amount to HK$1.71 per share (2016: HK$1.55 per share).

The proposed final dividend will be payable in cash and is expected to be distributed to shareholders on Thursday, 21 June 2018.

ISSUE OF BONUS SHARES

The Board proposes to make a bonus issue of one new share for every ten shares held (2016: one bonus share for every ten shares held) to shareholders whose names appear on the Register of Members of the Company on Monday, 11 June 2018. The relevant resolution will be proposed at the forthcoming annual general meeting, and if passed and upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in such new shares, share certificates for the bonus shares will be posted on Thursday, 21 June 2018.

BUSINESS REVIEW

Driven by good property sales in Hong Kong, the Group's underlying profit attributable to equity shareholders for the year ended 31 December 2017 surged by 38% to HK$19,557 million. Included therein, the attributable pre-tax underlying profit contribution from property sales (including the attributable contribution from subsidiaries, associates and joint ventures) increased by 44% from HK$4,115 million last year to HK$5,908 million, whilst the attributable pre-tax net rental income (including the attributable contribution from subsidiaries, associates and joint ventures) also increased by 3% to HK$6,649 million even with the disposal of certain rental properties during the year under review. Besides, there was a total attributable post-tax underlying profit contribution of HK$7,485 million arising from the disposal of various hotel properties, non-core investment properties and development sites in Hong Kong and mainland China.

Hong Kong

Property Sale

In 2017, the U.S. Federal Reserve raised interest rates three times. However, Hong Kong's economy remained solid and funds kept flowing in. Mortgage interest rates remained relatively low as a result. Together with the resilient housing demand from end-users, the property market in Hong Kong stayed strong. Record prices were repeatedly seen in both the land and housing markets.

The Group released for sales four residential developments during the year under review, namely, "Eden Manor" adjacent to the Hong Kong Golf Club in Fanling, "NOVUM WEST" in Sai Ying Pun, "NOVUM EAST" in Quarry Bay and "PARK REACH" in Yuen Long. It also released two office developments (through industrial building revitalization measures), namely, "Mega Cube" in Kowloon Bay and "The Globe" in Cheung Sha Wan. All of them were well received by buyers. "PARK REACH" in Yuen Long, for instance, was launched in late 2017 and all its residential units sold out on the first day of its release. Unsold units of existing projects such as "39 Conduit Road" in Mid-Levels, "Double Cove" (Phases 1-5) in Ma On Shan as well as the urban redevelopment boutique residences, "The H Collection", also sold well. A penthouse unit at "39 Conduit Road" in Mid-Levels, in terms of saleable area, was sold at an average price of over HK$100,000 per square foot, a record high for that location. For the year ended 31 December 2017, the Group sold an attributable total amount of HK$12,600 million of Hong Kong residences and offices.

In addition, the Group transferred the equity interests in the companies holding two hotel properties, namely, "Newton Place Hotel" in Kwun Tong and "Newton Inn" in North Point, for the respective consideration of HK$2,248 million and HK$1,000 million. Agreement was entered into to transfer equity interests in the company holding a residential development project at Kwun Chui Road, Tuen Mun, which was planned for a total developable gross floor area of about 785,000 square feet, for a consideration of HK$6,600 million. Together with the disposal of certain shop units at "Fairview Height" in Mid-Levels, "The Zutten" in Ma Tau Kok and "PARKER33" in Shau Kei Wan, as well as some other industrial and commercial properties and carparks, attributable proceeds arising from these disposals totalled HK$11,572 million. Including the aforesaid residential and office sales revenue, the Group sold HK$24,172 million worth of Hong Kong properties in attributable terms during the year under review, a record high and an increase of 62% as compared with HK$14,893 million for the previous year.

After the end of the financial year under review, equity interests in the company holding a waterfront Grade-A office tower at 18 King Wah Road, North Point, which boasts a total gross floor area of about 330,000 square feet, was transferred in January 2018 for a consideration of HK$9,950 million.

Property Development

In May 2017, a prestigious commercial site at Murray Road, Central was acquired through public tender at a consideration of HK$23,280 million. The site has easy access to MTR stations and sprawling open views of the adjacent Chater Garden, The Court of Final Appeal and Statue Square. It will be developed into a 35-storey Grade-A office development, providing a total gross floor area of about 465,000 square feet. Designed by the renowned Zaha Hadid Architects, upon its scheduled completion in 2022 it is poised to feature as another iconic landmark in the Central Business District of Hong Kong akin to the International Financial Centre.

For the two separate land lots in Fanling North and Kwu Tung New Development Areas, the amounts of land-use conversion premium were agreed with the Government in December 2017 at about HK$2,532 million and HK$1,235 million respectively. These two sites are expected to provide attributable gross floor areas of approximately 610,000 square feet and 270,000 square feet respectively, against their respective site areas of approximately 174,000 square feet and 56,000 square feet.

After the end of the financial year under review, in February 2018 the Group acquired interests in two residential lots adjacent to each other in Kai Tak Development Area at the total consideration of approximately HK$15,959 million. They are planned to be developed into stylish and luxury residences with an aggregate gross floor area of over 1.0 million square feet.

In addition, the number of urban redevelopment projects with 80% to 100% of their ownerships acquired increased to 51, representing about 4.2 million square feet in total attributable gross floor area.

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

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

			No. of projects	Attributable saleable/gross floor area (million sq. ft.) (Note 1)	Note
(A)	**Area available for sale in 2018:**				
1.	Unsold units from major development projects offered for sale	(Table 1)	24	1.1	
2.	Projects pending sale in 2018	(Table 2)	6	0.6	
			Sub-total:	**1.7**	Of which an attributable floor area of about 840,000 sq. ft. was sourced from urban redevelopment projects
(B)	**Projects in Urban Areas:**				
3.	Existing urban redevelopment projects	(Table 3)	4	1.1	Dates of sales launch are not yet fixed and one of them is pending finalization of land premium with the Government
4.	Newly-acquired Urban Redevelopment Projects – with ownership fully consolidated	(Table 4)	26	2.3	Most of them are expected to be available for sale or leasing in 2019-2020
5.	Newly-acquired Urban Redevelopment Projects – with 80% or above ownership secured	(Table 5)	25	1.9	Most of them are expected to be available for sale in 2020-2022
6.	Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured	(Table 6)	31	0.8	Redevelopments of these projects are subject to successful consolidation of their ownerships
7.	15 Middle Road Tsim Sha Tsui (acquired through public tender)		1	0.3	To be held for rental purposes upon completion of development
8.	Murray Road, Central (acquired through public tender)		1	0.5	To be held for rental purposes upon completion of development
9.	Kai Tak Development Area (acquired after the financial year end)		2	1.1	
			Sub-total:	**8.0**	
			Total for the above categories (A) and (B) development projects:	**9.7**	

(C) Major development projects in the New Territories:

– Fanling North	3.5	(Note 2)
– Wo Shang Wai	0.9	(Note 2)
– Fanling Sheung Shui Town Lot No. 262, Fanling North	0.6	
– Fanling Sheung Shui Town Lot No. 263, Kwu Tung	0.3	
– Others	0.3	
Sub-total:	**5.6**	
Total for categories (A) to (C):	**15.3**	

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

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

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

There are 24 major development projects available for sale:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	At 31 December 2017 No. of residential units remaining unsold	At 31 December 2017 Saleable area remaining unsold (sq. ft.)
1.	Eden Manor 88 Castle Peak Road Kwu Tung	154,280	555,399	Residential	100.00	395	401,095
2.	Double Cove – Phases 1-5 8 Wu Kai Sha Road Ma On Shan	1,042,397	2,950,640	Commercial/ Residential	59.00	116	211,263
3.	NOVUM EAST 856 King's Road Quarry Bay	17,720	177,817	Commercial/ Residential	100.00	409	116,757*
4.	NOVUM WEST 460 Queen's Road West Sai Ying Pun	28,027	272,439	Commercial/ Residential	100.00	350	113,045*
5.	Wellesley 23 Robinson Road Mid-Levels	31,380	156,900	Residential	50.00 (Note 1)	28	47,195*
6.	High Park Grand 68 Boundary Street Mong Kok	6,750	60,750	Commercial/ Residential	100.00	21	23,173*
7.	Seven Victory Avenue 7 Victory Avenue Ho Man Tin	9,865	83,245	Commercial/ Residential	100.00	56	19,087*
8.	Park One 1,3 Nam Cheong Street and 180 Tung Chau Street Cheung Sha Wan	8,559	77,029	Commercial/ Residential	100.00	41	18,295*
9.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	4	11,742
10.	The Reach 11 Shap Pat Heung Road Yuen Long	371,358	1,299,744	Residential	79.03	9	10,923
11.	Green Lodge 23 Ma Fung Ling Road Tong Yan San Tsuen	78,781	78,781	Residential	100.00	2	6,617
12.	H • Bonaire 68 Main Street Ap Lei Chau	7,953	65,761	Commercial/ Residential	100.00	5	3,062*

13.	Green Code 1 Ma Sik Road Fanling	95,800	538,723	Commercial/ Residential	33.41	2	2,403
14.	PARKER33 33 Shing On Street Shau Kei Wan	7,513	80,090	Commercial/ Residential	100.00	4	2,269*
15.	Eltanin • Square Mile 11 Li Tak Street Mong Kok	19,600	176,353	Commercial/ Residential	100.00	3	1,626*
16.	High One Grand 188 Fuk Wing Street Cheung Sha Wan	7,350	62,858	Commercial/ Residential	100.00	2	1,615*
17.	High One 571 Fuk Wa Street Cheung Sha Wan	7,560	63,788	Commercial/ Residential	100.00	3	1,491*
18.	Jones Hive 8 Jones Street Causeway Bay	6,529	65,267	Residential	79.762	4	1,332*
19.	Harbour Park 208 Tung Chau Street Cheung Sha Wan	6,528	55,077	Commercial/ Residential	33.41	4	1,113*
20.	High Point 188 Tai Po Road Cheung Sha Wan	8,324	70,340	Commercial/ Residential	100.00	2	1,095*
21.	Global Gateway Tower 61A-61E and 63 Wing Hong Street Cheung Sha Wan	28,004	336,052	Industrial	100.00	Not applicable	88,981* (Note 2)
22.	The Globe 79 Wing Hong Street Cheung Sha Wan	14,343	172,113	Office	100.00	Not applicable	67,039 (Note 2)
23.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	Not applicable	60,359 (Note 2)
24.	Mega Cube 8 Wang Kwong Road Kowloon Bay	21,528	171,194	Office	100.00	Not applicable	52,835 (Note 2)
					Sub-total:	**1,460**	**1,264,412**
					Area attributable to the Group:		**1,149,295**

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

Note 2: Representing the office, industrial or shop area.

* Urban redevelopment projects totalling approximately 420,000 square feet of remaining area attributable to the Group.

(Table 2) Projects pending sale in 2018

In the absence of unforeseen delays, the following 6 projects will be available for sale in 2018:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	No. of residential units	Residential gross floor area (sq. ft.)
1.	South Walk・Aura 12 Tin Wan Street Aberdeen	4,060	37,550	Commercial/ Residential	100.00	142	35,025*
2.	8-30A Ka Shin Street Tai Kok Tsui	19,610	176,315	Commercial/ Residential	100.00	514	155,174*
3.	Lot No. 1752 in DD No. 122 Tong Yan San Tsuen Yuen Long (Note 1)	27,864	27,864	Residential	100.00	16	27,864
4.	Yuen Long Town Lot No. 524 (Note 1)	48,933	171,266	Residential	79.03	504	171,266
5.	57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street To Kwa Wan	23,031	207,256	Commercial/ Residential	100.00	551	172,722*
6.	342-354 Un Chau Street Cheung Sha Wan	8,013	67,847	Commercial/ Residential	100.00	176	59,757*
					Total:	**1,903**	**621,808**
					Area attributable to the Group:		**585,894**

Note 1: Pending the issue of pre-sale consent.

***** Urban redevelopment projects totalling approximately 420,000 square feet of area attributable to the Group.

(Table 3) Existing urban redevelopment projects

The Group has a total of 4 existing projects under planning for redevelopment or land-use conversion and the dates of their sales launch are not yet fixed. As outlined below, they are expected to provide about 1.1 million square feet in attributable gross floor area in the urban areas based on the Buildings Department's approved plans or the Government's latest town planning:

Project name and location	Site area (sq. ft.)	Expected gross floor area upon redevelopment (sq. ft.)	Group's interest (%)	Expected attributable gross floor area upon redevelopment (sq. ft.)
1. 45 Pottinger Street Central, Hong Kong (Note 1)	9,067	135,995	19.10	25,975
2. 218 Electric Road North Point, Hong Kong (Note 1)	9,600	143,997	100.00	143,997
3. 29A Lugard Road The Peak, Hong Kong	23,649	11,824	100.00	11,824
4. Yau Tong Bay Kowloon (Note 2)	810,454	3,991,981	22.80	910,172
Total:	**852,770**	**4,283,797**		**1,091,968**

Note 1: Investment property.
Note 2: The modified master layout plan was approved in February 2015 and it is pending finalisation of land premium with the Government.

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

There are 26 newly-acquired urban redevelopment projects with ownership fully consolidated. In the absence of unforeseen delays, most of these projects are expected to be available for sale or leasing in 2019-2020 and their expected attributable gross floor areas, based on the Buildings Department's approved plans or the Government's latest town planning, are as follows:

	Project name and location	**Site area (sq. ft.)**	**Expected attributable gross floor area upon redevelopment (sq. ft.)**	
Hong Kong				
1.	1-19 Chung Ching Street and 21 Ki Ling Lane, Sheung Wan	7,858	90,048	
2.	1-4 Ladder Street Terrace, Sheung Wan	2,860	14,300	
3.	206-212 Johnston Road, Wanchai	4,339	65,083	(Note 1)
4.	17 Wood Road, Wanchai	2,015	17,128	(a)
5.	85-95 Shek Pai Wan Road, Aberdeen	4,950	47,025	(b)
6.	62C Robinson Road and 6 Seymour Terrace, Mid-Levels	3,855	33,760	
7.	4A-4P Seymour Road, Mid-Levels (65% stake held by the Group)	52,466	306,921	
8.	73-73E Caine Road, Mid-Levels	6,781	60,659	
9.	98-100 Robinson Road, Mid-Levels	5,594	23,576	(c)
10.	2 Tai Cheong Street, Sai Wan Ho	13,713	123,417	
11.	65-71 Main Street, Ap Lei Chau	4,800	40,800	
	Sub-total:	**109,231**	**822,717**	
Kowloon				
12.	2A-2F Tak Shing Street, Jordan	10,614	89,229	
13.	25-29 Kok Cheung Street, Tai Kok Tsui	26,953	227,411	
14.	35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui	20,114	181,025	
15.	11-19 Wing Lung Street, Cheung Sha Wan	6,510	58,300	(Note 2)
16.	456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po	22,966	194,397	(Note 2)
17.	1-15 Berwick Street and 202-220 Nam Cheong Street, Shek Kip Mei	20,288	162,304	(d)
18.	3-8 Yiu Tung Street, Shek Kip Mei	7,313	58,504	(d)
19.	15-17A Whampoa Street, Hung Hom	4,000	36,000	(e)
20.	31-33 Whampoa Street, Hung Hom	3,000	27,000	(f)

21.	39-41 Whampoa Street and 12A-12B and 22-22A Bulkeley Street, Hung Hom	4,900	44,100	(g)
22.	14-16 and 26-28 Gillies Avenue South and 76-78 Baker Street, Hung Hom	6,375	57,375	(h)
23.	57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan	23,031	207,256	
24.	67-83 Fuk Lo Tsun Road, Kowloon City	10,954	93,109	(Note 2)
25.	4-6 Nam Kok Road, Kowloon City	2,817	23,945	(i)
26.	74-74C Waterloo Road and 15-25 Yau Moon Street, Ho Man Tin (49% stake held by the Group)	10,677	39,240	
	Sub-total:	**180,512**	**1,499,195**	
	Total:	**289,743**	**2,321,912**	

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

* In this Table 4, any project marked alphabetically in the attributable gross floor area column will be jointly developed with the project marked with the corresponding alphabetic character in the attributable gross floor area column of the following Table 5 (when full ownership is acquired).

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

There are 25 newly-acquired urban redevelopment projects with over 80% ownership secured and their ownership will be consolidated by proceeding to court for compulsory sale under the "Land (Compulsory Sale for Redevelopment) Ordinance". In the event that no court order is granted, the Group may not be able to complete the consolidation of the ownership for development. If legal procedures go smoothly and in the absence of unforeseen delays, most of the projects set out below are expected to be available for sale in 2020-2022. On the basis of the Government's latest town planning, the expected attributable gross floor areas are shown as follows:

	Project name and location	**Site area (sq. ft.)**	**Expected attributable gross floor area upon redevelopment (sq. ft.)**	
Hong Kong				
1.	13-15 Wood Road, Wanchai	3,993	33,941	(a)
2.	83 Shek Pai Wan Road, Aberdeen	1,128	10,716	(b)
3.	4-6 Tin Wan Street, Aberdeen	1,740	14,790	
4.	9-13 Sun Chun Street, Tai Hang	2,019	18,171	
5.	17-25 Sun Chun Street, Tai Hang	4,497	40,473	
6.	983-987A King's Road and 16-94 Pan Hoi Street, Quarry Bay (50% stake held by the Group)	43,882	176,760	
7.	88 Robinson Road, Mid-Levels	10,361	51,805	(c)
8.	94-96 Robinson Road, Mid-Levels	6,362	31,810	(c)
9.	105 Robinson Road, Mid-Levels	27,530	126,638	
	Sub-total:	**101,512**	**505,104**	
Kowloon				
10.	1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui	9,642	86,778	
11.	177-183 Tai Kok Tsui Road, Tai Kok Tsui	4,500	36,000	
12.	189-199 Tai Kok Tsui Road, Tai Kok Tsui	6,745	60,705	
13.	16-30 Man On Street, Tai Kok Tsui	6,418	57,762	
14.	17-27 Berwick Street, Shek Kip Mei	7,725	61,800	(d)
15.	1-2 and 9-12 Yiu Tung Street, Shek Kip Mei	7,350	58,800	(d)
16.	1-11C and 19-21C Whampoa Street and 80-86 Baker Street, Hung Hom	15,725	141,525	(e)
17.	23-29 and 35-37 Whampoa Street and 79-81 Baker Street, Hung Hom	8,625	77,625	(f)
18.	14-20 Bulkeley Street and 46-50 Gillies Avenue South, Hung Hom	7,000	63,000	(g)
19.	2-12 and 18-24 Gillies Avenue South, Hung Hom	17,000	153,000	(h)
20.	2-16A Whampoa Street, Hung Hom	14,400	129,600	

21.	22-24 Whampoa Street and 88-90A Baker Street, Hung Hom	4,675	42,075	
22.	30-44 Gillies Avenue South and 75-77 Baker Street, Hung Hom	13,175	118,575	
23.	26-40A Whampoa Street and 83-85 Baker Street, Hung Hom	13,175	118,575	
24.	68A-70C To Kwa Wan Road, 14-16 Ha Heung Road, 1-7 Lai Wa Street and 2-8 Mei Wa Street, To Kwa Wan	22,023	149,141	
25.	8-22 Nam Kok Road, Kowloon City	7,360	62,560	(i)
	Sub-total:	**165,538**	**1,417,521**	
	Total:	**267,050**	**1,922,625**	

* In this Table 5, any project marked alphabetically in the attributable gross floor area column will be jointly developed (when full ownership is acquired) with the project marked with the corresponding alphabetic character in the attributable gross floor area column of the above Table 4.

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

The Group has other acquisitions in progress, involving 31 projects located in prime urban areas in Hong Kong and Kowloon. Currently, ownership ranging from more than 20% to less than 80% of each project has been achieved. The attributable land areas of these projects total about 230,000 square feet. If and when their ownerships are successfully consolidated, based on the Government's latest town planning, the total estimated attributable gross floor area would be about 2,000,000 square feet upon completion of redevelopment. Based on the respective ownership currently secured by the Group for each project, the total pro-rata attributable gross floor area is about 840,000 square feet.

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

Land Bank

In May 2017, the following prestigious commercial site at Murray Road, Central with easy access to MTR stations and sprawling open views of the adjacent Chater Garden, The Court of Final Appeal and Statue Square was acquired through public tender at a consideration of HK$23,280 million. It will be developed into an office-cum-commercial development:

Location	Lease Expiry	Site area (sq. ft.)	Group's interest (%)	Estimated attributable gross floor area (sq. ft.)
Murray Road, Central, Hong Kong, Inland Lot No. 9051	2067	31,000	100.00	465,000 (Note)

Note: including a public car park which provides 102 car parking spaces and 69 motorcycle parking spaces

In December 2017, the Group also finalized in-situ land exchange with land premium settled for the following two separate land lots in Fanling North and Kwu Tung New Development Areas and they are planned for residential development:

Location	Lease Expiry	Site area (sq. ft.)	Group's interest (%)	Estimated attributable gross floor area (sq. ft.)	Land premium (HK$ million)
1. Fanling Sheung Shui Town Lot No. 262, Fanling North	2067	174,235	100.00	609,817	2,531.68
2. Fanling Sheung Shui Town Lot No. 263, Kwu Tung	2067	56,510	80.00	271,248	1,235.38

After the end of the financial year under review, in February 2018 the Group acquired interests in the following two residential lots adjacent to each other in Kai Tak Development Area at the total consideration of approximately HK$15,959 million. The lots are close to the future Kai Tak MTR Station, and will be developed into stylish and luxury residences with an aggregate gross floor area of over 1.0 million square feet:

Location	Lease Expiry	Site area (sq. ft.)	Group's interest (%)	Estimated attributable gross floor area (sq. ft.)
1. New Kowloon Inland Lot No. 6562, Kai Tak	2066	94,755	100.00	397,967
2. New Kowloon Inland Lot No. 6565, Kai Tak	2066	121,224	100.00	674,602

The Group currently has a land bank in Hong Kong comprising a total attributable gross floor area of approximately 24.7 million square feet, made up as follows:

		Attributable gross floor area (million sq. ft.)
Properties under development (Note)		14.2
Unsold units from major launched projects		1.1
	Sub-total:	**15.3**
Completed properties (including hotels) for rental		9.4
	Total:	**24.7**

Note: Including the total attributable developable area of about 4.4 million square feet from the projects in Fanling North and Wo Shang Wai, which are subject to finalisation of land premium.

Land in Urban Areas

In addition to those already in the sales pipeline as mentioned, there are currently 51 urban redevelopment projects of old tenement buildings with entire or over 80% ownership acquired, representing a total attributable gross floor area of about 4.2 million square feet, which are expected to be available for sale or leasing in 2019 or beyond. The total land cost of such projects is estimated to be about HK$34,600 million (in spite of the inclusion of pricey street shops and the project at the prestigious Seymour Road in Mid-Levels), translating into a land cost of approximately HK$8,200 per square foot of gross floor area.

During the year under review, the Group completed the acquisition of the entire interests in five development projects (namely, 73-73E Caine Road in Mid-Levels, 98-100 Robinson Road in Mid-Levels, 2 Tai Cheong Street in Sai Wan Ho, 4-6 Nam Kok Road in Kowloon City, as well as 35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street in Tai Kok Tsui). The sites for various existing projects were also enlarged following the acquisition of the adjacent buildings. In addition, the residential-cum-commercial project at Yau Tong Bay is in the process of application for land exchange.

New Territories land

At 31 December 2017, the Group held New Territories land reserves amounting to approximately 44.9 million square feet in land area, which was the largest holding among all property developers in Hong Kong.

In July 2013, the Government announced the result of the "North East New Territories New Development Areas Planning and Engineering Study", of which Kwu Tung North and Fanling North would be treated as the extension of Fanling/Sheung Shui New Town. The Government has also decided to adopt an enhanced Conventional New Town Approach and, subject to specified criteria, private land owners are allowed to apply for in-situ land exchange for private developments. Outline Zoning Plans for both Kwu Tung North and Fanling North were already approved by the Chief Executive-in-Council. Of the Group's land holding of 2.4 million square feet in Fanling North New Development Area, a total land area of roughly over 800,000 square feet is assessed to be eligible for in-situ land exchange and the Government may resume the other parts of its lands for public use by payment of cash compensation. The Group has previously applied for in-situ land exchange for five separate land lots in Fanling North and Kwu Tung North. Two of which, as mentioned previously, were finalized with their land premium settled in December 2017, whereas the remaining three have just been accepted by the Government for further review. These three land lots in Fanling North are expected to provide an aggregate commercial gross floor area of 440,000 square feet and residential gross floor area of 3.0 million square feet approximately, against their respective site areas of 228,000 square feet, 241,000 square feet and 240,000 square feet. Developable areas for these sites are subject to finalisation of land premium.

According to the aforementioned "North East New Territories New Development Areas Planning and Engineering Study", the region at Ping Che/Ta Kwu Ling will be re-planned in response to the "2013 Policy Address" which proposed an initiative to review the development potential of New Territories North, including new opportunities brought about by the new railway infrastructure. In January 2014, the Government commenced its "Preliminary Feasibility Study on Developing the New Territories North" on an area of about 5,300 hectares. In September 2014, the Government announced the "Railway Development Strategy", including its long-term extension plan to further extend the railway line to Kwu Tung and Ping Che. The Group has a land holding of about 1.36 million square feet in Ping Che/Ta Kwu Ling which is embodied in the Master Layout Plan of the original "North East New Territories New Development Areas Planning and Engineering Study". In addition, the Group has about 1.09 million square feet of land in the adjacent areas, making a total of about 2.45 million square feet in the region. In order to increase land supply for housing, the Government formulated the Preliminary Outline Development Plan for "Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation" and launched its Stage 2 Community Engagement. It also released the "Land Use Review for Kam Tin South and Pat Heung". The Group holds certain pieces of land in these areas.

As for the "Hung Shui Kiu New Development Area Planning and Engineering Study", the area concerned covers an area of about 714 hectares. The Group holds a total land area of approximately 6.47 million square feet in this location. Under the draft Hung Shui Kiu and Ha Tsuen Outline Zoning Plan, it was proposed to accommodate a new town with a population of about 215,000 people and 60,000 additional flats, of which about 50% are private developments. Impacts to the Group arising from these proposals are to be assessed. The Group will continue to work in line with the Government's development policies and will follow up closely on its development plans.

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

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

Investment Properties

During the year under review, the Group's attributable gross rental income in Hong Kong, including the attributable contribution from subsidiaries, associates and joint ventures, increased by 3% to HK$6,746 million. The attributable pre-tax net rental income, including the attributable contribution from subsidiaries, associates and joint ventures, was HK$5,305 million, representing a growth of 3% over the previous year. Included therein is attributable gross rental income of HK$1,985 million (2016: HK$1,918 million) contributed from the Group's attributable 40.77% interest in The International Finance Centre ("ifc") project. At the end of December 2017, the leasing rate for the Group's major rental properties was 97%. Besides, the Group held about 9,000 car parking bays, providing additional rental income.

The Ginza-style commercial project at Hillwood Road, the Grade-A office building at King Wah Road, as well as the retail mall at "Eltanin • Square Mile" were completed successively during the year under review. At the end of December 2017, the Group's completed rental portfolio in Hong Kong was expanded to 8.9 million square feet in attributable gross floor area (excluding the office building at King Wah Road, North Point, which was already disposed of in January 2018), with the breakdown as follows:

By type:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Shopping arcade or retail	4.7	53
Office	3.3	37
Industrial	0.45	5
Residential and hotel apartment	0.45	5
Total:	**8.9**	**100**

By geographical area:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Hong Kong Island	2.2	24
Kowloon	2.9	33
New Territories	3.8	43
Total:	**8.9**	**100**

Retail portfolio

The Group's major shopping malls (except those under renovation or undergoing a realignment of tenant mix) recorded nearly full occupancy at the end of December 2017 with steady rental growth. Such satisfactory results were built on favourable attributes of the Group's shopping malls, including convenient locations, attentive customer services and appealing tenant mix. In addition to the regular facility upgrades of its shopping malls to maintain their competitiveness, the Group also closely watched the market trends and launched many innovative marketing activities to attract more shoppers. For instance, a local television operator was allowed to film its first-ever drama with real location shooting and in 4K picture quality at some of the Group's premises (namely, "MCP" in Tseung Kwan O, "KOLOUR•Tsuen Wan" and "KOLOUR•Yuen Long") with the final episode shown live at "Sunshine City Plaza" in Ma On Shan. This drama was well received and enhanced the awareness for the Group's shopping malls. At "KOLOUR•Tsuen Wan", a micro film was made to showcase the renovated mall. Virtual reality (VR) and augmented reality (AR) interactive entertainments were used for festive promotions. The mall thus has been successfully shaped into a popular rendezvous for the younger generation in the district. At "MCP Central" and "MCP Discovery" in Tseung Kwan O, renowned Japanese illustrator Toriyama Akira presented his first-ever three-dimensional crossover decorations of "Arale x Goku". All these creative promotional activities were appreciated by the industry. The Group won multiple honours in "The Shopping Mall Awards" organised by Hong Kong Economic Times, whilst "MCP" in Tseung Kwan O was also honoured as one of the "Top 10 Shopping Malls in Hong Kong".

The leasing response to the newly-completed commercial project at Hillwood Road, as well as the retail mall at "Eltanin•Square Mile", were encouraging. Other properties under development (such as the commercial projects at Pottinger Street, Central and Middle Road, Tsim Sha Tsui) are progressing well. In particular, the project at Middle Road atop East Tsim Sha Tsui MTR station, which was just one stop from the forthcoming Express Rail Link West Kowloon Station, will be developed into a Ginza-style commercial property, comprising medical, dining, retail and carparking facilities. Its purpose-built medical floors, which are designed by a team of professional medical design consultants, will be equipped with various advanced facilities (such as air purification system and back-up power supply) so as to meet the various medical requirements. The podium carpark will have access to retail floors, allowing greater convenience for shoppers. In addition, it features quality restaurants on its uppermost floors, bringing customers not only an unparalleled dining experience, but also a fascinating view of Victoria Harbour. This 340,000-square-foot development is scheduled for completion in 2019 and pre-marketing is under way.

Office portfolio

Leasing demand for office space remained resilient in Hong Kong, underpinned by the growing momentum of the local economy and limited new supply. During the year under review, the Group's premium office buildings in the core areas, such as "ifc" in Central, "AIA Tower" in North Point and "FWD Financial Centre" in Sheung Wan, recorded a rise in rental income with consistently high occupancy. Meanwhile, the Group's cluster of office and industrial/office premises in Kowloon East, including "Manulife Financial Centre", "AIA Financial Centre", "78 Hung To Road" and "52 Hung To Road", also performed well.

The Group's significant office portfolio is poised to grow further with the addition of the landmark office developments in the pipeline (including the project at Murray Road, Central, as well as the redevelopment projects at Electric Road, North Point and Johnston Road, Wanchai), which will in aggregate provide an additional gross floor area of about 670,000 square feet.

Hotel Operations

As a market leader in Hong Kong's hospitality sector, "Four Seasons Hotel Hong Kong" recorded an improvement in both occupancy and average room rate during the year under review. This hotel also received a number of international accolades, including a quadruple five-star rating in the "Forbes Travel Guide 2017', whilst its Chinese restaurant Lung King Heen and French restaurant Caprice were honoured with three stars and two starts respectively in the "2017 Michelin Guide Hong Kong & Macau".

Meanwhile, in order to improve the yield of the Group's assets, the transfer of the equity interests in the companies holding the Group's remaining two Newton hotels, namely, "Newton Place Hotel" in Kwun Tong and "Newton Inn" in North Point, were completed for the respective considerations of about HK$2,248 million and HK$1,000 million during the year under review.

Construction

The Group is committed to building excellence in all its property developments. "Double Cove Summit" at Ma On Shan and "Jones Hive" at Causeway Bay, for instance, were named as "Five-star Residencies for the Year 2017" by Hong Kong Professional Building Inspection Academy. Meanwhile, the Grade-A office building at 18 King Wah Road, North Point, as well as the Ginza-style commercial development at 15 Middle Road, Tsim Sha Tsui achieved Gold pre-certification from International WELL Building Institute. Besides, the project at 15 Middle Road won the Bronze Award under the Best Futura Projects category in the "MIPIM Asia Awards 2017" and achieved the award for the "Best Mixed Use Development (Asia)" in the "Asia Property Awards 2017".

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

The construction team's safety on site always tops the Group's priority. With such a committed approach to construction safety, the Group's construction accident rate was well below the industry average and numerous accolades such as "Proactive Safety Award" and "Safety Merit Award" were thus received.

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

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	Attributable gross floor area (sq. ft.)
1.	AXIS 200 Ma Tau Wai Road Hung Hom	4,905	41,314	Commercial/ Residential	100.00	41,314
2.	PARKER33 33 Shing On Street Shau Kei Wan	7,513	80,090	Commercial/ Residential	100.00	80,090
3.	The Zutten 50 Ma Tau Kok Road Ma Tau Kok	11,400	102,570	Commercial/ Residential	100.00	102,570
4.	Eltanin • Square Mile 11 Li Tak Street Mong Kok	19,600	176,353	Commercial/ Residential	100.00	176,353
5.	18 King Wah Road North Point	52,689	329,752	Office	100.00	329,752
6.	38 Hillwood Road Tsim Sha Tsui	4,586	55,031	Commercial	100.00	55,031
					Total:	**785,110**

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

Property Management

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

Following the Group’s firm belief in putting customers first, the property management subsidiaries keep striving for ever-higher service quality to meet customers’ expectations. Their professional accreditations such as ISO 9001 Quality Management System Certification, ISO 10002 Complaints Handling Management System Certification, ISO 14001 Environmental Management System Certification, OHSAS 18001 Occupational Health & Safety Management System Certification and Hong Kong Q-Mark Service Scheme Certification are testimony to the Group’s commitment to service excellence and customer satisfaction. In particular, “H-PRIVILEGE LIMITED”, a subsidiary of Hang Yick Properties Management Limited, also received a multitude of the above-mentioned certifications soon after its establishment as a mark of its quality one-stop services for the Group’s urban boutique residences under “The H Collection”.

In respect of community services, the property management team also stayed at the forefront of the industry. Following the success of the preceding “The Year of Care” and “The Year of Senior”, they recently launched “The Year of Youth” so as to raise public awareness of the holistic development of the next generation. In addition to receiving the “Outstanding Volunteer Team – Silver Award” from the Hong Kong Volunteer Federation, their volunteer team also won the “Highest Service Hour Award” championship from the Social Welfare Department for the twelfth year.

Mainland China

During the year under review, the Central Government maintained its regulatory stance towards the mainland property sector. In the implementation of differentiated policies, each city was obligated to initiate appropriate modifications to its housing policies according to local property market conditions. To prevent a further surge in home prices in the major cities and certain popular second-tier cities, four tightening measures, namely restrictions on pricing, purchasing, lending and re-selling, were implemented so as to curb demand from both investors and speculators. In addition to strictly regulating the lending criteria and loan purpose, more residential sites were released to the market. As a result, residential markets in the major cities experienced steady performance in sales volume and prices, whilst "destocking" policies continued for the other cities. At the 19th National Congress of the Communist Party, the Central Government set an important directive that "housing was for living in, not for speculation. They would speed up to put in place a housing system that ensures supply through multiple sources, provides housing support through multiple channels, and encourages both housing purchase and renting".

Major projects completed during the year under review are shown as follows:

Project name	Type of development	Group's interest (%)	Attributable gross floor area (million sq. ft.)
1. Towers 1 and 2, Phase G3, Riverside Park, Suzhou	Residential/ Commercial	70	0.69
2. Phase 4, Henderson•CIFI Centre, Shanghai	Office	50	0.18
3. Phase 2, Emerald Valley, Nanjing	Residential	100	0.04
4. Phase 3A, Palatial Crest, Xian	Residential	100	0.54
5. Phase 2, F1F2 Land Lot, Riverside Park, Suzhou			
- Towers 24 and 30	Residential	70	0.13
- Others	Residential	100	1.26
6. Phases 1 and 2, Henderson•CIFI City, Suzhou	Residential	50	1.14
7. Phase 2R4, La Botanica, Xian	Residential	50	0.93
		Total:	**4.91**

In response to the recent fundamental changes in market conditions, the Group has refined its strategies as follows:

Property Investment: In the central locations of major cities, the Group will actively seek to acquire prime sites for commercial/office developments for long-term investment holding. While the demand for quality office spaces on the mainland is acute, retail malls specifically are facing severe competition from online shopping. The Group will concentrate on the development of Grade-A office buildings. Retail malls will comprise a smaller percentage of the overall rental portfolio.

Property Development: In the first-tier cities as well as the second-tier cities with high growth potential, the Group will strengthen its co-operation with mainland property developers in the joint development of residential projects. The Group's reputation, management expertise and financial strength, coupled with the local developers' market intelligence, construction efficiency and cost advantages, will enable its development projects to generate higher returns.

In line with these strategies, equity interests of the companies holding the following non-core investment properties and development sites were transferred during the year under review:

(1) In February 2017, the transfer of the equity interests in the investment companies holding the "Henderson Centre" shopping mall, car parking spaces and other properties in Beijing was completed for a consideration of approximately HK$3,261 million (subject to adjustments).

(2) In March 2017, the transfer of the equity interests in the investment companies to Country Garden Holdings Company Limited ("Country Garden", a property developer listed in Hong Kong) was completed for an aggregate consideration (together with the repayment of related party loans) of approximately HK$2,017 million. The companies hold land in the process of resettlement and clearance in Fangcun, Guangzhou, which has an initially planned area of over 12,000,000 square feet.

(3) In July 2017, the transfer of equity interests in certain companies to Guangzhou R&F Properties Co., Ltd. (a property developer listed in Hong Kong) was completed for an aggregate consideration (together with the repayment of related party loans) of approximately HK$8,544 million (subject to adjustments). These companies hold the Group's nine projects located in Shenyang, Anshan, Tieling, Dalian and Guangzhou with an initially planned area of about 39,000,000 square feet in aggregate.

During the year, the Group's commercial developments in the prime locations of major cities, as well as residential development projects in certain major and leading second-tier cities, were expanded:

(1) In January 2017, an office/commercial site with a total developable area of about 960,000 square feet in the southern extension of Huangpu River, Xuhui District, Shanghai was acquired at about RMB2,330 million. Together with an adjacent land lot acquired in July 2015, there will be a large-scale integrated development with a total gross floor area of nearly 3,000,000 square feet.

(2) In June 2017, the Group entered into co-operation agreements with CIFI Holdings (Group) Co. Ltd. ("CIFI", a property developer listed in Hong Kong) to jointly develop two residential sites in Luzhi and Xukou, which are both located in the Wuzhong District of Suzhou. The 310,000-square-foot site in Luzhi, which was acquired at a consideration of RMB546 million, will provide a total gross floor area of over 460,000 square feet and the Group will have 50% equity interest in this project. The 520,000-square-foot land lot in Xukou, which was acquired at a consideration of RMB1,442 million, will provide a total gross floor area of over 1,300,000 square feet and the Group will have 50% equity interest in this project.

(3) In July 2017, the Group entered into co-operation agreements with the subsidiaries of Greenland Holdings Corporation Ltd. (“Greenland”, a property developer listed in the mainland) and China Merchants Shekou Industrial Zone Holdings Co., Ltd. (“China Merchant”, a property developer listed in the mainland) to jointly develop a residential site in Lin Gang New Town, Pudong, Shanghai. This 660,000-square-foot land lot, which was acquired at a consideration of RMB1,560 million, will provide a total gross floor area of about 793,000 square feet and the Group will have 32% equity interest in this project.

(4) In August 2017, the Group entered into co-operation agreements with the subsidiaries of Country Garden, China Merchant and China Vanke Co. Ltd. (“Vanke”, a property developer listed in the mainland) to jointly develop two residential sites in Lin Gang New Town, Pudong, Shanghai. These two adjoining land lots, which were acquired at a total consideration of RMB1,630 million, will provide a total gross floor area of about 830,000 square feet against the total site areas of about 690,000 square feet. The Group will have 25% equity interest in this project.

(5) In September 2017, the Group entered into another co-operation agreement with CIFI to jointly develop, on a 50/50 ownership basis, an office/commercial site at Huaihai Middle Road, Area 45 Lot 17/2 Huangpu District, Shanghai. This 93,000-square-foot site was purchased at a consideration of about RMB1,330 million. Upon completion of the development, it will provide a planned total gross floor area of about 280,000 square feet.

In addition to the holding of approximately 1.0 million square feet in attributable gross floor area of completed property stock, the Group held a development land bank in 11 cities at 31 December 2017 with a total attributable gross floor area of about 35.5 million square feet. Around 74% of this total were planned for residential development:

Land bank under development or held for future development

		Group's share of developable gross floor area* (million sq. ft.)
Prime cities		
Shanghai		3.5
Guangzhou		1.8
	Sub-total:	**5.3**
Second-tier cities		
Changsha		6.2
Chengdu		3.6
Dalian		0.3
Nanjing		0.1
Shenyang		4.5
Suzhou		3.0
Xian		9.3
Xuzhou		0.6
Yixing		2.6
	Sub-total:	**30.2**
	Total:	**35.5**

** Excluding basement areas and car parks*

Usage of development land bank

		Estimated developable gross floor area (million sq. ft.)	Percentage (%)
Residential		26.1	74
Office		4.9	14
Commercial		3.9	11
Others (including clubhouses, schools and community facilities)		0.6	1
	Total:	**35.5**	**100**

Property Sales

During the year under review, the Group achieved attributable contracted sales of development properties of approximately HK$8,189 million in value and 6.3 million square feet in attributable gross floor area. "Riverside Park" and "Henderson•CIFI City" in Suzhou, "La Botanica" in Xian, "Henderson•CIFI Centre" in Shanghai, "The Arch of Triumph" in Changsha as well as "Grand Lakeview" in Yixing were the major revenue contributors of contracted sales.

Investment Properties

At 31 December 2017, the Group had about 6.4 million square feet of completed investment properties in mainland China. During the year under review, the Group's attributable gross rental income was just up by 1% to HK$1,713 million, whilst its attributable pre-tax net rental income decreased by 0.4% to HK$1,344 million due to the absence of rental contribution from "Henderson Centre" in Beijing since February 2017 when the disposal of its shopping mall and car parking spaces was completed.

In Beijing, "World Financial Centre'', an International Grade-A office complex in the Chaoyang Commercial Business District, was 98% let at the end of December 2017, attracting many renowned tenants such as "Spencer Stuart", "Morrison Foerster LLP", "CITIC Prudential Fund" and "Novell".

In Shanghai, "Henderson Metropolitan" near the Bund has been striving to deliver innovative designs and unique lifestyle concepts to its customers and tourists. For instance, Starbucks was revamped and expanded into a duplex coffee store during the year under review, whilst another leading retail flagship, namely PUMA, will also expand into a duplex store in early 2018. More sporting brands and popular eateries will be brought in, so as to attract the patronage of more shoppers with their respective family members. Business turnover for its tenants is boosted as a result. "Henderson 688" at Nanjing Road West, as well as "Grand Gateway II'' atop the Xujiahui subway station, also performed well as they housed many leading multinational corporations and local enterprises on the back of their prime locations. Renovations and tenant mix refinements will soon be conducted so as to further strengthen their rental values. "Greentech Tower" and "Centro" in the close proximity to Shanghai Railway Station recorded steady rental growth with leasing rates exceeding 95% during the year under review. The locations of these two properties have been grouped into the upscale Jingan District. The continual development in their neighbouring Suzhou Creek area will set to further benefit both projects.

In Guangzhou, "Hengbao Plaza" atop the Changshou Road subway station is the city's retail hotspot, boasting a wide collection of fashion boutiques and eateries. With the phased completion of the renovation works in the first half of 2018, as well as the opening of "MaxValu" (a newly-drawn Japanese exquisite supermarket), customers will soon have a refreshing shopping experience in this mall.

The Group's significant mainland rental portfolio will be further bolstered by two sizeable wholly-owned projects in the pipeline:

In Xu Hui Riverside Development Area of Shanghai, two office/commercial sites, which were acquired in July 2015 and January 2017 respectively, are now planned to be jointly developed as a landmark development. The entire project, which consists of about 2,670,000 square feet of Grade-A offices and about 350,000 square feet of retail spaces, will be completed in two phases from 2019 to 2020.

In the Yuexiu District of Guangzhou, "Haizhu Square Station Project" will be another iconic integrated development, sitting on the banks of Pearl River with direct connection to two subway lines. In June 2017, against an increased site area of about 340,000 square feet, an underground space of about 430,000 square feet was added to this large-scale project at a consideration of about RMB640 million and it was available for commercial use. An open activity space will extend from the shopping mall to the expanded underground piazza, combining shopping, leisure and entertainment interaction all into a dynamic integrated experience. The upscale shopping mall and two Grade A office towers, with a total gross floor area of about 1.8 million square feet, are scheduled for completion in late 2019.

Henderson Investment Limited ("HIL")

HIL's profit attributable to equity shareholders for the year ended 31 December 2017 amounted to HK$111 million, representing an increase of HK$11 million or 11% over HK$100 million for the previous year. The increase was mainly the net result of the net gain of HK$33 million arising from the completion of the winding-up proceedings for the discontinued infrastructure operation in mainland China during the year under review, and the reduced profit contribution of HK$23 million from Citistore.

HIL operates a department store business in six densely-populated residential districts under the name "Citistore", which aims to provide customers with "one-stop" shopping convenience by offering a wide variety of reliable merchandise at competitive prices.

During the year under review, HIL rolled out the following initiatives to enhance the competitiveness of Citistore:

- In January 2017, the Ma On Shan store was relocated to operate at another location in the same shopping mall, whilst the Tseung Kwan O store was also expanded and revamped during the year. With more spacious floor areas, both stores have been well-received by customers as they offer a more enjoyable shopping experience with the addition of more proprietary brands. For instance, "CITIZEN'S EDIT", a fashion concept store and 'CTBeatZ", a cultural and creative platform, were both newly introduced in these two stores. By sourcing branded trendy apparel and accessories from around the world, "CITIZEN'S EDIT" satisfies the needs of young, style-savvy urbanites by offering them limited editions of signature items. 'CTBeatZ" organised various creative events and workshops, thereby enriching their customers' product knowledge and lifestyle experience.

- Citistore continues to harness technology to foster closer interaction with its customers. "Citi-Fun", a new mobile phone app launched in April 2017, keeps customers fully informed of the latest promotional privileges. To encourage repeated patronage and more spending, a newly-designed customer loyalty programme and special price offers to "Citi-Fun" members have been put in place. The customers' responses to this programme are positive and by the end of December 2017, Citistore had over 160,000 "Citi-Fun" members.

- In September 2017, Citistore launched an innovative promotional campaign to attract more shoppers. The campaign consisted of four birdie mascots, namely, "Ka Ka", Ra Ra", "Fu Fu' and "Ru Ru", which together have a similar pronunciation to "Colourful" in Japanese, reflecting Citistore's mission of "adding colors to customers' life". In recognition of its sustained excellent performance, Citistore received the Gold Award in Department Store Category of the "Outstanding QTS Merchant Award 2017" organized by the Hong Kong Tourism Board.

As the sales of winter season merchandise were affected by the exceptionally warm weather in January and February 2017, Citistore recorded a year-on-year decrease of 4% in total sales (which were derived from the sales of own goods, as well as from concessionaire and consignment sales) for the year ended 31 December 2017.

During the year under review, Citistore's sales of own goods declined by 6% year-on-year to HK$410 million but its gross margin remained steady at 35%. The Household & Toys category made up approximately 53% of the total revenue from sales of goods, the Apparels category contributed approximately 31% and the balance of approximately 16% came from the categories of Foods and Cosmetics.

Citistore's concessionaire sales are conducted by licensing portions of shop spaces to its concessionaires for setting up their own concession counters to sell their products, whilst consignment sales comprise the sales of consignors' own products on or in designated shelves, areas or spaces. Citistore charges these concessionaire and consignment counters on the basis of revenue sharing or basic rent (if any), whichever is higher, as its rental income. During the year under review, the total rental income derived from these concessionaire and consignment counters decreased by 3% year-on-year to HK$417 million, in line with the year-on-year decrease of 3% to HK$1,400 million in the total sales proceeds generated from these counters.

With the decrease in gross profit of HK$9 million from the sales of own goods, as well as the decrease in rental income from concessionaire and consignment counters in the aggregate amount of HK$13 million, Citistore's profit after taxation for the year ended 31 December 2017 decreased by HK$23 million or 24% to HK$74 million, despite its relentless efforts in raising efficiency and controlling operating costs.

Overall, after taking into account a net gain of HK$33 million arising from the completion of the winding-up proceedings for the discontinued infrastructure operation in mainland China, HIL's profit attributable to equity shareholders for the year under review amounted to HK$111 million, representing an increase of HK$11 million or 11% over that of HK$100 million for the previous year.

Given the improving local consumption since the last quarter of 2017, as well as increasing inbound tourism, HIL is cautiously optimistic about the business outlook for 2018. To capitalise on the encouraging responses to the customer loyalty programme "Citi-Fun", Citistore will target to increase the average ticket size and encourage repeated patronage among their members. It will also continue to launch creative marketing campaigns and exercise stringent cost controls, thereby enhancing the overall results.

Associated Companies

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

Profit after taxation attributable to shareholders of Hong Kong and China Gas amounted to HK$8,225 million in 2017, an increase of HK$884 million compared to 2016. Exclusive of its share of a revaluation surplus from the International Finance Centre complex, Hong Kong and China Gas's profit after taxation for the year was HK$7,008 million, an increase of approximately 14% compared to 2016.

During the year under review, Hong Kong and China Gas invested HK$6,141 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and mainland China.

TOWN GAS BUSINESS IN HONG KONG

Benefiting from a rise in commercial and industrial gas sales, total volume of gas sales in Hong Kong for 2017 reached 29,049 million MJ, an increase of 0.8% compared to 2016 whilst total number of appliances sold in 2017 was over 275,000 units, a similar level to 2016. As at the end of 2017, the number of customers was 1,883,407, an increase of 23,993 compared to 2016, up slightly by 1.3%. The increase in the standard gas tariff effective from 1 August 2017 is helping to offset some of its own rising operating costs.

UTILITY BUSINESSES IN MAINLAND CHINA

As at the end of 2017, Hong Kong and China Gas held approximately 67.1% of the total issued shares of Towngas China Company Limited ("Towngas China"; stock code: 1083). Towngas China recorded good growth in profit after taxation attributable to its shareholders, amounting to HK$1,365 million in 2017, an increase of approximately 40% over 2016.

Project development also progressed well during 2017 with Towngas China adding to its portfolio a city-gas project in Huji town, Zhongxiang city, Hubei province, a midstream natural gas pipeline network project in Guyang county, Baotou city, Inner Mongolia Autonomous Region and a distributed energy project in Shenyang Economic and Technological Development Zone, Shenyang city, Liaoning province.

Foshan Gas Group Co., Ltd., an associate of Towngas China, was listed on the Shenzhen Stock Exchange in November 2017. The company is principally engaged in the piped city-gas business.

As at the end of 2017, inclusive of Towngas China, Hong Kong and China Gas had a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2017 was approximately 19,500 million cubic metres, an increase of 14% over 2016. As at the end of 2017, this group's mainland gas customers stood at approximately 25.38 million, an increase of 10% over 2016.

Construction of its natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. Upon completion, this facility, with a total storage capacity of approximately 440 million standard cubic metres, will be the first of its kind built by a city-gas enterprise on the mainland. Construction of phase one of this project, developing a storage capacity of approximately 140 million standard cubic metres, was completed, with inspection passed, in January 2018. Construction of phase two, to develop a storage capacity of approximately 300 million standard cubic metres, will commence in late March 2018.

Hong Kong and China Gas's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well, with 122 stations to date spread across different provinces. Apart from this, this group is also proactively developing a gas refilling business for marine vessels.

Hong Kong and China Gas has been in the mainland water market, under the brand name "Hua Yan Water", for over 12 years and currently invests in, and operates, six water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. In addition, this group is constructing a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand. Commissioning is expected in the fourth quarter of 2018; this will be Hong Kong and China Gas's first project converting waste into valuable products.

Hong Kong and China Gas invested in an LNG receiving terminal and supporting pier project at Huanghua port, Cangzhou city, Hebei province in early 2018. This state-planned energy project will be developed in phases. Construction will embrace four LNG storage tanks with a total design receiving capacity of 2.6 million tonnes of LNG per annum, half of which is expected to be commissioned in 2021, and an unloading pier with a capacity of 100,000 tonnes. This project is currently at the preparatory stage and is expected to become a major channel for importing LNG into Hebei province after completion.

Overall, inclusive of projects of its subsidiary, Towngas China, this group had 245 projects on the mainland, as at the end of 2017, four more than at the end of 2016, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

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

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – all operated well in 2017, contributing to ECO's steady profit growth. With a total turnover of approximately 6.55 million tonnes of aviation fuel in 2017, ECO's aviation fuel facility provided a safe and reliable fuel supply to Hong Kong International Airport. ECO's five LPG vehicular refilling stations also operated smoothly in 2017, providing a quality and reliable fuel supply to the territory's taxi and minibus sectors. ECO's landfill gas utilisation project is generating noticeable environmental benefits. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories was commissioned in November 2017. This further raises the proportion of landfill gas used by this group.

The Chinese government stepped up its efforts in 2017 to promote “coal-to-gas” conversion - using natural gas to replace coal for steam raising, leading to a surge in LNG prices during the winter, benefiting the operating income of ECO’s coalbed methane liquefaction facility, located in Jincheng city, Shanxi province. Output from this project increased by 11%, bringing better profit growth in 2017 compared to 2016. ECO is proactively developing networks of natural gas refilling stations which are gradually taking shape and expanding.

A plant, located in Zhangjiagang city, Jiangsu province to process inedible grease feedstock using ECO’s self-developed technology, has been constructed. The initial trial production has successfully yielded a first batch of 3,000 tonnes of green and renewable hydro-treated vegetable oil (HVO) for export to European markets. This project has gained “International Sustainability and Carbon Certification” (ISCC).

ECO’s research and development team has successfully developed a world leading approach regarding pyrolysis and hydrolysis technologies which could effectively break down agricultural and forestry waste into hemicellulose, cellulose and lignin for further processing, creating an innovative way to convert this waste into value-added materials. To this end, ECO is planning to launch its first pilot project in a straw-rich mainland region applying hydrolysis technology to convert hemicellulose and cellulose in straw into furfural and paper pulp respectively; both are chemical feedstock and basic materials which will bring noticeable economic and environmental benefits.

The operating environment of ECO’s clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region improved substantially in 2017, with a rise in the price of methanol and a 26% increase in annual sales compared to 2016. Additionally, construction of a facility to convert a portion of the project’s syngas into 120,000 tonnes of ethylene glycol annually has been completed, with trial production targeted to start in the first quarter of 2018.

ECO’s scientific research focusing on the extraction of high-quality carbon materials from the bitumen part of high-temperature coal tar oil has achieved promising results, successfully producing meso-carbon micro-bead and high-quality activated carbon which meet the specifications required for commercial applications. Meso-carbon micro-bead is an ideal anode material for lithium-ion batteries, whereas high-quality activated carbon can be used for making super capacitors. ECO has started preparatory work on its first pilot project of this kind in Ordos city, Inner Mongolia Autonomous Region, with gradual commissioning expected to start in early 2019.

TELECOMMUNICATIONS BUSINESSES

This group’s development of telecommunications businesses in Hong Kong and mainland China, including provision of connectivity, data centres and cloud computing services for international and local telecommunications operators as well as large corporations, through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter’s subsidiaries (collectively known as “TGT”), is progressing steadily. Benefiting from synergy created by laying fiber-optic cables along existing town gas pipelines, and leveraging European advanced “glass-in-gas” and “glass-along-gas” technologies, TGT has developed telecommunications networks in Liaoning province, Shandong province, Jiangsu province, Shenzhen city, etc.

In addition, TGT has invested in, and is currently operating, seven data centres in Hong Kong and mainland China in Dongguan city, Jinan city, Dalian city, Beijing city and Harbin city in total accommodating up to 16,000 server racks. Furthermore, based on its professional and reliable telecommunications infrastructure, TGT has built a highly flexible and secure cloud platform to cater for different needs of customers.

FINANCING PROGRAMMES

Hong Kong and China Gas established a medium term note programme in 2009. Medium term notes totalling HK$1,438 million, with maturity of 10 years, were issued during 2017. As at 31 December 2017, the amount of medium term notes issued had reached HK$13,400 million with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.5% and an average tenor of 15 years.

Hong Kong and China Gas issued its inaugural green bonds in November 2017. The inaugural 10-year green bonds, amounting to HK$600 million and JPY2 billion, were issued under its medium term note programme. Proceeds from the bonds are earmarked for investment in its waste-to-energy projects, including the landfill gas utilisation project at the South East New Territories landfill in Hong Kong and other eligible green investments in mainland China. Hong Kong and China Gas is the first energy utility in Hong Kong to issue green bonds. The issuance of green bonds has allowed Hong Kong and China Gas to tap into a new base of green bond investors as an additional funding source for financing environmentally green projects under the Towngas Green Bond Framework.

***Hong Kong Ferry (Holdings) Company Limited* (“*Hong Kong Ferry*”)**

Hong Kong Ferry’s revenue from continuing operations for the year ended 31 December 2017 amounted to approximately HK$494 million, representing a decrease of 2% when compared to the previous year. This was mainly attributed to the decrease in the sale of residential units of Shining Heights. Its consolidated profit after taxation for the year amounted to approximately HK$346 million, an increase of 46% as compared with the profit after taxation of HK$237 million last year.

During the year under review, profit for Hong Kong Ferry was mainly derived from the sale of the residential units of Green Code and The Spectacle and the car parking spaces of Shining Heights.

During 2017, the profit of Hong Kong Ferry from the sale of the residential units of Green Code, The Spectacle and Metro6 and car parking spaces of Shining Heights amounted to HK$129 million. The pre-sale of Harbour Park was satisfactory and over 97% of the residential units had been sold. The occupation permit has been issued in January 2018 and the flats would be handed over to the owners for occupation in the first half of 2018.

The gross rental income from the commercial arcades of Hong Kong Ferry amounted to approximately HK$95 million. As at the end of 2017, the commercial arcades of Shining Heights, The Spectacle and Metro6 were fully let. The occupancy rate of commercial arcades of Metro Harbour View and Green Code Plaza were 99% and 94% respectively.

The construction of Hong Kong Ferry’s 50%/50% joint venture project with Empire Group Holdings Limited located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories (Tuen Mun Town Lot No. 547) has been in good progress. The project under construction consists of six residential towers providing about 1,663 units with sea view or landscape view. The gross floor area of the project is about 663,000 square feet which is expected to be completed in early 2022. Merits of the project include sizeable outdoor gardens and integrated clubhouse facilities, proximity to the yacht club and the renowned international school, convenient transportation to Shenzhen via Western Corridor, between Kowloon via the highways, between Central of Hong Kong Island via Western Harbour Tunnel, and between Chek Lap Kok Airport via the future Tuen Mun Tunnel.

During the year under review, the ferry, shipyard and related operations recorded a profit of HK$30 million, showing a 120% increase as compared with last year. Both revenue and profit of the shipyard business have shown increase.

During the year, a profit of HK$89 million in securities investment was recorded mainly due to the disposal of available-for-sale securities of this group.

Hong Kong Ferry’s Harbour Park project has been granted occupation permit in January 2018 and profits derived from the pre-sale of 97% of the units will be accounted for in 2018. Coupled with the rental income from the commercial arcades, they will comprise this group’s main source of income for the coming year.

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

Miramar's revenue for the year ended 31 December 2017 amounted to HK$3,186 million, representing an increase of 2% compared to last year (2016: HK$3,118 million).

Profit attributable to shareholders for the reporting period increased by 19% to HK$1,519 million (2016: HK$1,277 million). This growth is mainly attributable to the satisfactory performance of both the property rental segment and hotels and serviced apartments segment, with additional contributions from the one-off net gain upon disposal of a property in Central, revaluation gain of investment properties and net gain on disposal of securities.

Excluding the increase of HK$723 million in the fair value of its investment properties and the one-off net gain from the disposal of a property in Central of HK$32 million, the basic underlying profit surged significantly by 32% to approximately HK$764 million (2016: HK$580 million).

During the reporting period, hotels and serviced apartments of this group benefited from visitor arrivals and overnight visitor arrivals returning to growth. Revenue has increased by 4% to HK$662 million compared to last year. Earnings before interest, taxes, depreciation and amortization ("EBITDA") amounted to HK$248 million, representing an increase of approximately 11%. During the year, the occupancy rate and average room rate of both The Mira Hong Kong and Mira Moon rose satisfactorily. The increase in the occupancy rate of both hotels at around 7% is higher than those among hotels in the same district.

Miramar's property rental business grew steadily in 2017. Property rental business recorded revenue of HK$859 million and EBITDA of HK$754 million. Both revenue and EBITDA rose by 4% compared to last year.

Miramar completed the hardware and software optimization and strategic integration for the four core properties, namely Miramar Shopping Centre, Mira Mall, Miramar Tower and The Mira Hong Kong, located at a golden shopping area in Tsim Sha Tsui. Since 2 June 2017, they have been rebranded as Mira Place with 1.2 million square feet of high quality landmark. During the year, Mira Place continued to carry out their asset enhancement program to keep the malls fresh and attractive through interior renovation and decoration. Several promotional events aimed at drawing crowds were launched and its retail spaces saw a rise of 6% in average yearly footfall, which boosted tenants' sales revenue by 13%. Mira Place is this group's major investment properties. Due to the increase in revenue from Mira Place under the on-going asset optimisation project, Miramar's investment property portfolio recorded a net increase in fair value of HK$723 million, at the rate similar to last year, amounting to HK$14,100 million as at 31 December 2017.

Its food and beverage business recorded revenue of HK$394 million and EBITDA of HK$23 million respectively, dropped 12% and 34% respectively due to the strategic revamp of certain brands (including its number and location of outlets). Cuisine Cuisine and Tsui Hang Village have achieved good performance and contributed stable revenue to this group. Since 2013, Tsui Hang Village in Tsim Sha Tsui has been recommended by the MICHELIN Guide Hong Kong & Macau for six consecutive years.

Revenue from travel segment increased by 6% to HK$1,272 million compared to last year. The increase was mainly due to the rise in income from tours to Japan and Europe. EBITDA amounted to HK$29 million.

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles. At 31 December 2017, net debt (including the shareholder's loan totalling HK$1,754 million (31 December 2016: HK$316 million)) amounted to HK$55,631 million (31 December 2016: HK$33,434 million) giving rise to a financial gearing ratio of 19.0% (31 December 2016: 12.7%).

Since 2017, the Group has issued medium term notes of 7 years, 10 years, 12 years and 15 years for a total amount of HK$2,715 million so as to diversify the sources of funding and to extend the debt maturity profile. In addition, the Group issued a 15-year unrated Japanese Yen bonds for a total amount of JPY2,000 million during the year under review, demonstrating that the Group's prime credit quality is well received by investment community.

The Group's internal funding remained ample. Since 2017, the Group has respectively fully prepaid and cancelled a HK$13,800 million 4-year and 5-year term loan / revolving credit facility before their respective due dates in January 2018 and January 2019. In addition, the five-year bonds for a total amount of US$700 million, the ten-year notes for a total amount of US$43 million, as well as a JPY10,000 million five-year term loan were fully repaid by the Group's internal resources during the year under review.

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

PROSPECTS

Upon the scheduled completion of several key cross-border infrastructure projects, such as Hong Kong-Zhuhai-Macao Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong stands to further benefit from China's development of the Greater Bay Area. Its status as an international financial and commercial centre is expected to be reinforced. The Group is therefore positive about the long-term prospects of the local property market.

The Group continues to replenish its development land bank in Hong Kong through various means and encouraging progress has been achieved: (1) In May 2017, the Group won the tender for a prestigious commercial site at Murray Road, Central with a gross floor area of about 465,000 square feet at HK$23,280 million; (2) The number of urban redevelopment projects with 80% to 100% of their ownerships acquired increased to 51, representing about 4.2 million square feet in total attributable gross floor area; (3) In December 2017, land-use conversion premium for two sites separately in Fanling North and Kwu Tung New Development Areas were agreed with the Government at about HK$2,532 million and HK$1,235 million respectively. They will provide an aggregate attributable gross floor areas of about 900,000 square feet. Whereas, the Group's land reserves in the New Territories increased to 44.9 million square feet in terms of site area at the end of December 2017, the largest holding among all property developers in Hong Kong; and (4) In February 2018, two residential sites in Kai Tak Development Area were secured at a total consideration of about HK$15,959 million, adding over 1.0 million square feet in aggregate gross floor area to its land bank.

As regards "**property sales**", the Group plans to embark on the sale of six development projects in this financial year. Together with unsold stocks, a total of about 3,300 residential units and 270,000 square feet of quality industrial/office space in Hong Kong will be available for sale in 2018. Besides, in early 2018, the transfer of the equity interests in the companies holding the Grade-A office building at 18 King Wah Road, North Point, and a residential development project at Kwun Chui Road, Tuen Mun, were completed at the respective consideration of HK$9,950 million and HK$6,600 million. The relevant profits arisen therefrom will be recognised in the accounts in 2018. In particular, the selling price regarding the Grade-A office building at King Wah Road, North Point, represents an average price of over HK$30,000 per square foot of gross floor area, a record high around that area.

Turning to mainland China, the Central Government is striving to increase land supply for the year ahead. The scale for rental and welfare housing will also be expanded so as to facilitate balanced and sustainable growth for the property market. Meanwhile, certain cities are still plagued with excessive stock. As such, it is anticipated that the two fundamental directives of "destocking" and "facilitating the sustainable and healthy development of the property market" will remain unchanged. The Group will continue to look for development projects in the first-tier cities, as well as those second-tier cities with high growth potential, so as to expand its land bank. Co-operation with local property developers will also be enhanced so as to push forward the property development business.

As regards “**rental business**”, the Group’s portfolio of completed investment properties comprised an attributable gross floor area of 8.9 million square feet in Hong Kong and 6.4 million square feet in mainland China, providing an aggregate gross rental income (including the attributable contribution from subsidiaries, associates and joint ventures) of HK$8,459 million during the year under review.

In both Hong Kong and mainland China, the Group has numerous sizeable rental properties under development. In Hong Kong, there are the commercial project at Middle Road and the office project at Murray Road. In mainland China, there are Xu Hui Riverside Project in Shanghai and Haizhu Square Station Project in Guangzhou. The respective construction works have been progressing well. With a continually expanding rental portfolio, the Group’s recurrent rental income is set to grow further.

The “**associates**”, namely, Hong Kong and China Gas, Miramar and Hong Kong Ferry, serve as another steady recurrent income stream to the Group. As Hong Kong’s first public utility company, Hong Kong and China Gas has developed into a multi-business corporation comprising 245 projects in 26 provinces, autonomous regions and municipalities in mainland China. With a total of over 27.0 million piped-gas customers in Hong Kong and mainland China, as well as its expanding scope of businesses, it is poised to provide promising returns to the Group.

After years of “sowing”, the Group is now “harvesting” and the thriving results in this financial year has led the Group to reach new heights. By way of acquisition of a massive land bank in the New Territories and various old tenement buildings for redevelopment, the Group has built up an extensive land bank in Hong Kong to support its property development for the years to come. Together with the continually expanding rental portfolio and investment returns from associated companies, these three major income pillars (namely, “**property sales**”, “**rental business**” and “**associates**”) have laid a solid earnings foundation. In addition, with its ample financial resources and a well experienced professional management team, the Group is well-placed to capture business opportunities ahead and realise the genuine value of its assets, thereby creating ever improving value for the shareholders. Barring unforeseen circumstances, the Group’s results for the coming financial year are expected to be satisfactory.

APPRECIATION

I would like to take this opportunity to extend my appreciation to my fellow directors for their wise counsel, and to thank all our staff for their commitment and hard work throughout the year.

Lee Shau Kee
Chairman

Hong Kong, 21 March 2018

BUSINESS RESULTS

Consolidated Statement of Profit or Loss
for the year ended 31 December 2017

	Note	***2017*** **HK$ million**	*2016* HK$ million
Revenue	3	**24,453**	25,568
Direct costs		**(12,726)**	(14,702)
		11,727	10,866
Other revenue	4	**166**	169
Other net income	5	**5,038**	2,283
Selling and marketing expenses		**(1,077)**	(1,212)
Administrative expenses		**(1,969)**	(1,903)
Profit from operations before changes in fair value of investment properties and investment properties under development		**13,885**	10,203
Increase in fair value of investment properties and investment properties under development	6	**9,911**	7,013
Profit from operations after changes in fair value of investment properties and investment properties under development		**23,796**	17,216
Finance costs	7(a)	**(837)**	(882)
Bank interest income		**633**	327
Net finance costs		**(204)**	(555)
Share of profits less losses of associates		**4,966**	3,891
Share of profits less losses of joint ventures		**4,378**	3,889
Profit before taxation	7	**32,936**	24,441
Income tax	8	**(2,115)**	(2,255)
Profit for the year		**30,821**	22,186

Consolidated Statement of Profit or Loss

for the year ended 31 December 2017 (continued)

	Note	***2017*** **HK$ million**	*2016* HK$ million
Attributable to:			
Equity shareholders of the Company		**30,433**	21,916
Non-controlling interests		**388**	270
Profit for the year		**30,821**	22,186
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*10(a)*	***HK$7.61***	*HK$5.48**
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*10(b)*	***HK$4.89***	*HK$3.54**

** Adjusted for the bonus issue effected in 2017.*

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017

	2017 **HK$ million**	*2016* HK$ million
Profit for the year	**30,821**	22,186
Other comprehensive income for the year (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Share of other comprehensive income of associates and joint ventures	**53**	3
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences: net movement in the exchange reserve	**3,221**	(3,577)
- Cash flow hedges: net movement in the hedging reserve	**156**	45
- Available-for-sale securities: net movement in the fair value reserve	**245**	68
- Share of other comprehensive income of associates and joint ventures	**1,524**	(1,089)
Other comprehensive income for the year	**5,199**	(4,550)
Total comprehensive income for the year	**36,020**	17,636
Attributable to:		
Equity shareholders of the Company	**35,627**	17,386
Non-controlling interests	**393**	250
Total comprehensive income for the year	**36,020**	17,636

Consolidated Statement of Financial Position

at 31 December 2017

	Note	***At 31 December 2017*** **HK$ million**	*At 31 December 2016* HK$ million
Non-current assets			
Investment properties		**172,673**	131,850
Other property, plant and equipment		**350**	1,419
Interest in associates		**59,506**	53,936
Interest in joint ventures		**44,865**	38,728
Derivative financial instruments		**111**	358
Other financial assets		**11,937**	10,854
Deferred tax assets		**424**	377
		289,866	237,522
Current assets			
Deposits for acquisition of properties	12	**1,666**	4,608
Inventories	13	**73,602**	75,242
Trade and other receivables	14	**19,452**	10,651
Cash held by stakeholders		**2,333**	1,289
Cash and bank balances		**24,673**	22,966
		121,726	114,756
Asset of the disposal group classified as held for sale		**-**	3,220
		121,726	117,976
Current liabilities			
Trade and other payables	15	**23,355**	21,223
Bank loans		**23,506**	14,392
Guaranteed notes		**1,169**	5,760
Tax payable		**1,968**	1,054
		49,998	42,429
Liabilities associated with asset of the disposal group classified as held for sale		**-**	32
		49,998	42,461
Net current assets		**71,728**	75,515
Total assets less current liabilities		**361,594**	313,037

Consolidated Statement of Financial Position

at 31 December 2017 (continued)

	Note	*At 31 December 2017* HK$ million	*At 31 December 2016* HK$ million
Non-current liabilities			
Bank loans		**45,671**	28,086
Guaranteed notes		**8,204**	7,846
Amount due to a fellow subsidiary		**1,754**	316
Derivative financial instruments		**746**	906
Deferred tax liabilities		**6,607**	6,582
		62,982	43,736
NET ASSETS		**298,612**	269,301
CAPITAL AND RESERVES			
Share capital		**52,345**	52,345
Other reserves		**240,780**	211,189
Total equity attributable to equity shareholders of the Company		**293,125**	263,534
Non-controlling interests		**5,487**	5,767
TOTAL EQUITY		**298,612**	269,301

Notes:

1 Basis of preparation

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results 2017 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and will deliver the financial statements for the year ended 31 December 2017 in due course.

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

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

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

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

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

2 Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company, which are relevant to the Group's consolidated financial statements for the current accounting period:

- Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*
- Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*

Under the amendments to HKAS 7, an entity is required to provide disclosures that enable users of financial statements to evaluate movements in the carrying amounts of items relating to financing activities during the financial period/year. Except for the aforementioned, none of these developments has had a material effect on the preparation or presentation of the Group's results and financial position for the current or prior periods.

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

Up to the date of issue of these financial statements, the HKICPA has issued a few new standards which are not yet effective for the financial year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

2 Changes in accounting policies (continued)

HKFRS 9 introduces new classification and measurement requirements for financial assets on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, a new expected credit loss model that replaces the incurred loss impairment model used in HKAS 39, *Financial Instruments: Recognition and Measurement* ("HKAS 39"), and a new hedge accounting model where the hedged ratio is required to be the same as the one used by an entity's management for risk management purposes. Based on management's initial assessment,

- The classification of its financial assets in accordance with the requirement of HKFRS 9 will not have a material impact on the net assets of the consolidated statement of financial position of the Group;
- The Group plans to adopt HKAS 39 on hedge accounting; and
- Impairment based on expected credit loss model on the Group's rental, instalments and trade receivables have no significant financial impacts.

Under HKFRS 15, revenue from sale of goods and provision of services will be recognised when the customer obtains control of the promised goods or services in the contract. Management has initially assessed the impact of the adoption of HKFRS 15 and based on its assessment, this would result in the revenue from sale of properties and the corresponding direct costs recognised later than they would have been at present.

Under HKFRS 16, a lessee is required to recognise at its inception a right-of-use asset and a lease liability in the statement of financial position, and the related depreciation charge on the right-of-use asset and the related interest expenses on the lease liability in the statement of profit or loss. Management has initially assessed that the adoption of HKFRS 16 would affect the leases of properties as a lessee currently classified as operating leases, which result in an increase in both assets and liabilities and to impact on the timing of recognition in the statement of profit or loss over the period of the leases. A portion of the Group's future minimum lease payments under non-cancellable operating leases is payable between one and five years after the end of the reporting period. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will perform a more detailed analysis taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

3 Revenue

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

The major items are analysed as follows:

	2017	*2016*
	HK$ million	HK$ million
Sale of properties	**16,522**	17,679
Rental income	**5,678**	5,559
Department store operation	**834**	871
Other businesses	**1,419**	1,459
Total (note 11(b))	**24,453**	25,568

4 Other revenue

	2017	*2016*
	HK$ million	HK$ million
Other interest income	**10**	9
Others	**156**	160
	166	169

5 Other net income

	2017	*2016*
	HK$ million	HK$ million
Net gain/(loss) on transfer of subsidiaries regarding (note (i))		
- Investment properties (note (i)(a))	**159**	1,956
- Properties held for development (note (i)(b))	**1,490**	(5)
- Hotel properties (note (i)(c))	**2,188**	-
- Others	**-**	8
	3,837	1,959
Net gain/(loss) on disposal of investment properties (Note 11(a))	**1,211**	(32)
	5,048	1,927
Net gain on winding-up of subsidiaries (note (ii))	**33**	-
Net fair value gain/(loss) on derivative financial instruments:		
- Interest rate swap contracts (note (iii))	**21**	597
- Other derivatives	**(35)**	78
Cash flow hedges: reclassified from hedging reserve to profit or loss (note (iv))	**(371)**	(12)
Net gain on disposal of available-for-sale securities	**336**	2
Reversal of impairment loss/(impairment loss) on trade debtors (notes 11(c))	**2**	(11)
Reversal of provision/(provision) on inventories, net	**25**	(332)
Net foreign exchange gain	**79**	108
Others	**(100)**	(74)
	5,038	2,283

5 Other net income (continued)

Notes:

(i) *The net gain/(loss) on transfer of subsidiaries includes:*

(a) *a gain of HK$160 million in relation to the transfer of subsidiaries which own Beijing Henderson Centre and a loss of HK$1 million in relation to the transfer of subsidiaries which together own certain commercial shops at Fairview Height, Mid-levels, Hong Kong (2016: a gain of HK$1,956 million in relation to the transfer of subsidiaries which own Golden Centre in Hong Kong);*

(b) *a gain of HK$1,146 million in relation to the transfer of subsidiaries which own a land site in Fangcun, Guangzhou, mainland China and a gain of HK$344 million in relation to the transfer of subsidiaries which altogether own certain property development projects located in Anshan, Dalian, Guangzhou, Tieling and Shenyang, mainland China (2016: a loss of HK$5 million resulting from the transfer of 50% of the equity interests in two wholly-owned subsidiaries which altogether own four plots of land in Changsha, mainland China); and*

(c) *a gain of HK$697 million in relation to the transfer of subsidiaries which own the property occupied by Newton Inn, North Point to a deemed connected person and a gain of HK$1,491 million in relation to the transfer of a subsidiary which owns the property occupied by Newton Place Hotel, Kwun Tong (2016: Nil).*

(ii) *The amount represents the net gain on winding-up of two subsidiaries, namely, Tianjin Jinning Roads Bridges Construction Development Company Limited and Tianjin Wanqiao Project Development Company Limited, which was completed on 16 November 2017.*

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

(iv) *The amount comprises (1) the net cumulative loss (before tax) of HK$351 million (2016: HK$12 million) which was reclassified from equity to profit or loss upon the revocation of the hedge relationship between certain bank loans and guaranteed notes of the Company's wholly-owned subsidiaries (as hedged items) and their underlying interest rate swap contracts and cross-currency interest rate swap contracts (as hedging instruments) during the year ended 31 December 2017; and (2) other reclassification from equity to profit or loss of HK$20 million (2016: Nil).*

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

The Group's investment properties and investment properties under development were revalued at 31 December 2017 by Cushman & Wakefield Limited (formerly known as DTZ Cushman & Wakefield Limited), an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis.

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

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

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

As a result, a net fair value gain of HK$9,911 million (2016: HK$7,013 million) and deferred tax charge in respect of the fair value change on investment properties in mainland China of HK$238 million (2016: HK$445 million) have been recognised in the consolidated statement of profit or loss for the year.

Including the net fair value gains on the investment properties held by the Group's associates and joint ventures for the year ended 31 December 2017, the Group's attributable share of the aggregate net fair value gains on investment properties and investment properties under development held by subsidiaries, associates and joint ventures for the year ended 31 December 2017 amounted to HK$13,501 million (2016: HK$9,866 million) (net of deferred tax), of which (i) an amount of HK$12,564 million (2016: HK$8,446 million) relates to investment properties and investment properties under development in Hong Kong; and (ii) an amount of HK$937 million (2016: HK$1,420 million) relates to investment properties in mainland China.

6 Increase in fair value of investment properties and investment properties under development (continued)

A reconciliation of the abovementioned figures to the Group's fair value gain on investment properties and investment properties under development held by subsidiaries of HK$9,911 million (2016: HK$7,013 million) (before deducting deferred tax and non-controlling interests' attributable share), as referred to above, is as follows:-

For the year ended 31 December 2017

	Hong Kong	Mainland China	Total	
	HK$ million	**HK$ million**	**HK$ million**	
Fair value gain on investment properties and investment properties under development held by				
- subsidiaries (before deducting non-controlling interests' attributable share and deferred tax)	**8,775**	**1,136**	**9,911**	(note 10(b))
Less :				
Deferred tax	**-**	**(238)**	**(238)**	(note 10(b))
Non-controlling interests'attributable share of the fair value gain (net of deferred tax)	**(51)**	**-**	**(51)**	
(after deducting non-controlling interests' attributable share and deferred tax)	**8,724**	**898**	**9,622**	
- associates (Group's attributable share)	**950**	**-**	**950**	(note 10(b))
- joint ventures (Group's attributable share)	**2,890**	**39**	**2,929**	(note 10(b))
	12,564	**937**	**13,501**	

6 Increase in fair value of investment properties and investment properties under development (continued)

For the year ended 31 December 2016

	Hong Kong HK$ million	Mainland China HK$ million	Total HK$ million	
Fair value gain on investment properties and investment properties under development held by				
- subsidiaries (before deducting non-controlling interests' attributable share and deferred tax)	5,169	1,844	7,013	(note 10(b))
Less :				
Deferred tax	-	(445)	(445)	(note 10(b))
Non-controlling interests'attributable share of the fair value gain (net of deferred tax)	(5)	-	(5)	
(after deducting non-controlling interests' attributable share and deferred tax)	5,164	1,399	6,563	
- associates (Group's attributable share)	867	-	867	(note 10(b))
- joint ventures (Group's attributable share)	2,415	21	2,436	(note 10(b))
	8,446	1,420	9,866	

7 Profit before taxation

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

		2017	*2016*
		HK$ million	HK$ million
(a)	**Finance costs:**		
	Bank loans interest	**841**	751
	Interest on loans wholly repayable within five years	**511**	786
	Interest on loans repayable after five years	**22**	27
	Other borrowing costs	**160**	176
		1,534	1,740
	Less: Amount capitalised (note)	**(697)**	(858)
	Finance costs	**837**	882

Note: The borrowing costs have been capitalised at weighted average interest rates (based on the principal amounts of the Group's bank loans, guaranteed notes and amount due to a fellow subsidiary during the period under which interest capitalisation is applicable) ranging from 2.18% to 4.91% (2016: 2.97% to 4.70%) per annum.

7 Profit before taxation (continued)

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

		2017 *HK$ million*	2016 *HK$ million*
(b)	**Directors' emoluments**	**177**	177
(c)	**Staff costs (other than directors' emoluments):**		
	Salaries, wages and other benefits	**2,048**	1,952
	Contributions to defined contribution retirement plans	**87**	88
		2,135	2,040
(d)	**Other items:**		
	Net foreign exchange loss/(gain)	**416**	(210)
	Cash flow hedges: net foreign exchange (gain)/loss reclassified from equity	**(495)**	102
		(79)	(108)
	Cost of sales		
	- properties for sale	**10,337**	12,206
	- trading stocks	**281**	293
	Auditors' remuneration		
	- audit services	**18**	18
	- non-audit services	**11**	10
	Depreciation (notes 11(c))	**94**	106
	Operating lease charges: minimum lease payments in respect of leasing of building facilities	**235**	220
	Rentals receivable from investment properties less direct outgoings of HK$1,378 million (2016: HK$1,319 million) (note (i))	**(4,140)**	(4,084)
	Rental income from others less direct outgoings of HK$280 million (2016: HK$263 million) (notes (ii) and (iii))	**(356)**	(384)
	Dividend income from investments in available-for-sale securities		
	- listed	**(206)**	(164)
	- unlisted	**(8)**	(99)

Notes:

(i) The rental income from investment properties included contingent rental income of HK$32 million (2016: HK$37 million).

(ii) The rental income from others included contingent rental income of HK$182 million (2016: HK$188 million).

(iii) The net rental income before tax from others included net rental income before tax in the amount of HK$209 million (2016: HK$235 million) which is related to the department store operation segment.

8 Income tax

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

	2017	*2016*
	HK$ million	HK$ million
Current tax – Provision for Hong Kong Profits Tax		
Provision for the year	**923**	756
Over-provision in respect of prior years	**(2)**	(9)
	921	747
Current tax – Provision for taxation outside Hong Kong		
Provision for the year	**1,166**	471
Over-provision in respect of prior years	**(43)**	(37)
	1,123	434
Current tax – Provision for Land Appreciation Tax		
Provision for the year	**389**	263
Under/(over)-provision in respect of prior years	**5**	(5)
	394	258
Deferred tax		
Origination and reversal of temporary differences	**(323)**	816
	(323)	816
	2,115	2,255

Provision for Hong Kong Profits Tax has been made at 16.5% (2016: 16.5%) on the estimated assessable profits for the year, taking into account a one-off reduction of 75% of the tax payable for the year of assessment 2016/17 subject to a ceiling of HK$20,000 (2015/16: HK$20,000) for each business allowed by the Hong Kong Special Administrative Region Government.

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

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

9 Dividends

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

	2017	*2016*
	HK$ million	HK$ million
Interim dividend declared and paid of HK$0.48 (2016: HK$0.42) per share	**1,921**	1,528
Final dividend proposed after the end of the reporting period of HK$1.23 (2016: HK$1.13) per share	**4,921**	4,110
	6,842	5,638

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

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

	2017	*2016*
	HK$ million	HK$ million
Final dividend in respect of the previous financial year, approved and paid during the year of HK$1.13 (2016: HK$1.07) per share	**4,110**	3,538

10 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$30,433 million (2016: HK$21,916 million) and the weighted average number of 4,001 million ordinary shares in issue during the year (2016: 4,001 million ordinary shares*), calculated as follows:

	2017	*2016*
	million	million
Number of issued ordinary shares at 1 January	**3,637**	3,306
Weighted average number of ordinary shares issued in respect of the bonus issue in 2016	**-**	331
Weighted average number of ordinary shares issued in respect of the bonus issue in 2017	**364**	364
Weighted average number of ordinary shares for the year (2016: as adjusted)	**4,001**	4,001

Diluted earnings per share were the same as the basic earnings per share for the year and the corresponding year ended 31 December 2016 as there were no dilutive potential ordinary shares in existence during both years.

** Adjusted for the bonus issue effected in 2017.*

10 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the profit attributable to equity shareholders of the Company after excluding the effects of changes in fair value of investment properties and investment properties under development ("Underlying Profit") of HK$19,557 million (2016: HK$14,169 million). A reconciliation of profit is as follows:

	2017	*2016*
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**30,433**	21,916
Changes in fair value of investment properties and investment properties under development during the year (note 6)	**(9,911)**	(7,013)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the year (note 6)	**238**	445
Share of changes in fair value of investment properties (net of deferred tax) during the year:		
– associates	**(950)**	(867)
– joint ventures	**(2,929)**	(2,436)
Cumulative fair value change of investment properties and investment properties under development disposed of during the year, net of tax (*note*):		
– subsidiaries	**3,054**	2,257
– associates and joint ventures	**28**	-
Effect of share of non-controlling interests	**(406)**	(133)
Underlying Profit	**19,557**	14,169
Underlying earnings per share, based on the weighted average number of ordinary shares for the year (note 10(a))	**HK$4.89**	HK$3.54*

** Adjusted for the bonus issue effected in 2017.*

Note: In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties and investment properties under development disposed of during the year (which has been included in calculating the net gain on disposal of investment properties and investment properties under development and hence the profit attributable to equity shareholders of the Company during the year) of HK$2,625 million (2016: HK$2,119 million) was added back in arriving at the Underlying Profit.

11 Segment reporting

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

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

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

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

(a) Results of reportable segments

Information regarding the Group's and its share of associates and joint ventures on reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

For the year ended 31 December 2017	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue *(note (i))*	Segment results	Share of revenue	Share of segment results	Combined revenue	Consolidated segment results	Revenue	Segment results	Combined revenue	Consolidated segment results
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Property development										
Hong Kong	9,555	3,373	408	143	9,963	3,516	(524)	(235)	9,439	3,281
Mainland China	6,967	1,442	3,442	1,097	10,409	2,539	-	(2)	10,409	2,537
	16,522	4,815	3,850	1,240	20,372	6,055	(524)	(237)	19,848	5,818
Property leasing										
Hong Kong	3,979	2,955	2,776	2,353	6,755	5,308	(9)	(3)	6,746	5,305
Mainland China	1,699	1,332	14	12	1,713	1,344	-	-	1,713	1,344
(note (ii))	5,678	4,287	2,790	2,365	8,468	6,652	(9)	(3)	8,459	6,649
Department store operation	834	265		-		265		(27)		238
Other businesses	1,419	1,004		462		1,466		-		1,466
	24,453	10,371		4,067		14,438		(267)		14,171
Utility and energy	-	-		3,782		3,782		-		3,782
	24,453	10,371		7,849		18,220		(267)		17,953
Reversal of provision/(provision) on inventories, net		25		(1)		24		-		24
Sales of property interests *(note (iv))*	(note 5)	5,048		15		5,063		(99)		4,964
Unallocated head office and corporate income expenses, net	*(note (iii))*	(1,559)		(239)		(1,798)		(7)		(1,805)
Profit from operations		13,885		7,624		21,509		(373)		21,136
Increase in fair value of investment properties and investment properties under development		9,911		3,893		13,804		(51)		13,753
Finance costs		(837)		(662)		(1,499)		12		(1,487)
Bank interest income		633		121		754		(5)		749
Net finance costs		(204)		(541)		(745)		7		(738)
Profit before taxation		23,592		10,976		34,568		(417)		34,151
Income tax		(2,115)		(1,632)		(3,747)		29		(3,718)
Profit for the year		21,477		9,344		30,821		(388)		30,433

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

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

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2017						
Share of profits less losses of associates *(note (v))*						
- Listed associates						
The Hong Kong and China Gas Company Limited	**-**	**744**	**(271)**	**473**	**2,942**	**3,415**
Miramar Hotel and Investment Company, Limited	**-**	**639**	**60**	**699**	**-**	**699**
Hong Kong Ferry (Holdings) Company Limited	**34**	**39**	**38**	**111**	**-**	**111**
- Unlisted associates	**547**	**140**	**54**	**741**	**-**	**741**
	581	**1,562**	**(119)**	**2,024**	**2,942**	**4,966**
Share of profits less losses of joint ventures *(note (vi))*	**111**	**4,112**	**155**	**4,378**	**-**	**4,378**
	692	**5,674**	**36**	**6,402**	**2,942**	**9,344**

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

For the year ended 31 December 2016	Company and its subsidiaries (before deducting non-controlling interests) Revenue *(note (i))* HK$ million	Segment results HK$ million	Associates and joint ventures Share of revenue HK$ million	Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Attributable to non-controlling interests Revenue HK$ million	Segment results HK$ million	Attributable to equity shareholders of the Company Combined revenue HK$ million	Consolidated segment results HK$ million
Property development										
Hong Kong	9,951	2,752	115	76	10,066	2,828	(960)	(286)	9,106	2,542
Mainland China	7,728	1,085	2,740	369	10,468	1,454	(5)	(9)	10,463	1,445
	17,679	3,837	2,855	445	20,534	4,282	(965)	(295)	19,569	3,987
Property leasing										
Hong Kong	3,871	2,894	2,684	2,244	6,555	5,138	(15)	(6)	6,540	5,132
Mainland China	1,688	1,339	12	10	1,700	1,349	-	-	1,700	1,349
(note (ii))	5,559	4,233	2,696	2,254	8,255	6,487	(15)	(6)	8,240	6,481
Department store operation	871	298		-		298		(36)		262
Other businesses	1,459	696		175		871		(19)		852
	25,568	9,064		2,874		11,938		(356)		11,582
Utility and energy	-	-		3,596		3,596		-		3,596
	25,568	9,064		6,470		15,534		(356)		15,178
Provision on inventories, net		(332)		(1)		(333)		-		(333)
Sales of property interests *(note (iv))*	(note 5)	1,927		1		1,928		11		1,939
Unallocated head office and corporate income expenses, net	*(note (iii))*	(456)		(307)		(763)		13		(750)
Profit from operations		10,203		6,163		16,366		(332)		16,034
Increase in fair value of investment properties and investment properties under development		7,013		3,316		10,329		(5)		10,324
Finance costs		(882)		(679)		(1,561)		17		(1,544)
Bank interest income		327		100		427		(5)		422
Net finance costs		(555)		(579)		(1,134)		12		(1,122)
Profit before taxation		16,661		8,900		25,561		(325)		25,236
Income tax		(2,255)		(1,120)		(3,375)		55		(3,320)
Profit for the year		14,406		7,780		22,186		(270)		21,916

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

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

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2016						
Share of profits less losses of associates *(note (v))*						
- Listed associates						
The Hong Kong and China Gas Company Limited	-	713	(386)	327	2,721	3,048
Miramar Hotel and Investment Company, Limited	-	613	14	627	-	627
Hong Kong Ferry (Holdings) Company Limited	37	38	5	80	-	80
- Unlisted associates	33	99	4	136	-	136
	70	1,463	(363)	1,170	2,721	3,891
Share of profits less losses of joint ventures *(note (vi))*	171	3,584	134	3,889	-	3,889
	241	5,047	(229)	5,059	2,721	7,780

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) The revenue figures above are arrived at after the elimination of inter-segment revenues, in the amounts of HK$315 million (2016: HK$327 million) and HK$1,206 million (2016: HK$2,368 million) in relation to the reportable segments under property leasing and others, respectively.

(ii) Revenue for the property leasing segment comprises rental income of HK$5,125 million (2016: HK$5,022 million) and rental-related income of HK$553 million (2016: HK$537 million), which in aggregate amounted to HK$5,678 million for the year (2016: HK$5,559 million).

(iii) Unallocated head office and corporate expenses, net of HK$1,559 million for the year (2016: HK$456 million) is stated after taking into account the net fair value gain on interest rate swap contracts during the year of HK$21 million (2016: HK$597 million)(see note 5), and the loss of HK$371 million (2016: HK$12 million) arising from the reclassification from hedging reserve to profit or loss upon the revocation of the hedging relationship between certain of the Group's bank loans and guaranteed notes and their underlying interest rate swap contracts and cross currency interest rate swap contracts during the year and other reclassification(see note 5). Excluding the aforementioned gain/loss, the Group's unallocated head office and corporate expenses, net for the year amounted to HK$1,209 million (2016: HK$1,041 million).

(iv) Included in the aggregate gain from the sales of property interests is an amount of HK$1,385 million (2016: HK$1,925 million) representing the aggregate amount of the Group's (1) net gain on transfer of subsidiaries holding investment properties of HK$159 million (2016: HK$1,956 million)(see note 5); (2) net gain on disposal of investment properties of HK$1,211 million (2016: net loss of HK$32 million)(see note 5) (before deducting/adding back the amount of net gain/(loss) attributable to non-controlling interests); and (3) attributable share of gain on disposal of investment properties by an associate HK$15 million (2016: HK$1 million). After deducting the amount of net gain attributable to non-controlling interests of HK$99 million (2016: adding back the amount of net loss attributable to non-controlling interests of HK$14 million), and adding back the Group's attributable share of cumulative fair value gains on the disposal of investment properties up to the time of disposals of HK$2,712 million (2016: HK$1,991 million), an aggregate gain of HK$3,998 million (2016: HK$3,930 million) contributing to the Group's underlying profit from the disposal of investment properties for the year ended 31 December 2017 was recognised.

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes: (continued)

(v) The Group's share of profits less losses of associates contributed from the property leasing segment during the year of HK$1,562 million (2016: HK$1,463 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$950 million (2016: HK$867 million).

The Group's share of losses less profits of associates contributed from other businesses segment during the year of HK$119 million (2016: HK$363 million) includes the Group's share of profit after tax contributed from hotel operation and management during the year of HK$93 million (2016: HK$73 million).

(vi) The Group's share of profits less losses of joint ventures contributed from the property leasing segment during the year of HK$4,112 million (2016: HK$3,584 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$2,929 million (2016: HK$2,436 million).

The Group's share of profits less losses of joint ventures contributed from other businesses segment during the year of HK$155 million (2016: HK$134 million) includes the Group's share of profit after tax contributed from hotel operation and management during the year of HK$138 million (2016: HK$130 million).

11 Segment reporting (continued)

(b) Geographical information

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

	Revenue from external customers		**Specified non-current assets**	
	For the year ended 31 December		**At 31 December**	
	2017	*2016*	***2017***	*2016*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**15,760**	16,114	**223,952**	187,715
Mainland China	**8,693**	9,454	**53,442**	38,218
	24,453	25,568	**277,394**	225,933
	(note 3)	(note 3)		

(c) Other segment information

	Depreciation		**(Reversal of impairment loss)/impairment loss on trade debtors**	
	For the year ended 31 December		**For the year ended 31 December**	
	2017	*2016*	***2017***	*2016*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**7**	11	**-**	-
Property leasing	**4**	6	**2**	(5)
Department store operation	**33**	25	**-**	-
Other businesses	**50**	64	**(4)**	16
	94	106	**(2)**	11
	(note 7(d))	(note 7(d))	**(note 5)**	(note 5)

12 Deposits for acquisition of properties

The Group's deposits for acquisition of properties mainly include HK$332 million (2016: HK$3,591 million) and HK$561 million (2016: HK$561 million) paid relating to the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

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

13 Inventories

	2017	*2016*
	HK$ million	HK$ million
Property development		
Leasehold land held for development for sale	**10,577**	10,334
Properties held for/under development for sale	**57,124**	54,440
Completed properties for sale	**5,820**	10,388
	73,521	75,162
Other operations		
Trading stocks	**81**	80
	73,602	75,242

14 Trade and other receivables

	2017	*2016*
	HK$ million	HK$ million
Instalments receivable	**2,430**	1,561
Loans receivable	**866**	293
Debtors, prepayments and deposits	**15,926**	8,686
Gross amount due from customers for contract work	**28**	22
Derivative financial instruments	**67**	7
Amounts due from associates	**10**	6
Amounts due from joint ventures	**125**	76
	19,452	10,651

All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits, prepayments and other receivables of HK$8,011 million (2016: HK$2,866 million) which are expected to be recovered after more than one year from the end of the reporting period.

14 Trade and other receivables (continued)

At 31 December 2017, loans receivable comprised amounts of (i) HK$138 million which is secured and interest-bearing at 12% per annum and wholly recoverable on 30 June 2018; (ii) HK$310 million which is unsecured, interest-bearing at 6% per annum and wholly recoverable on 5 May 2018; (iii) HK$146 million which is unsecured, interest-bearing at 6% per annum and wholly recoverable on 12 May 2018; and (iv) HK$272 million which is unsecured, interest-bearing at 4.35% per annum and wholly recoverable on 29 May 2018 (2016: loans receivable comprised amounts of HK$114 million and HK$179 million which were secured, interest-bearing at Hong Kong Interbank Offered Rate plus 4% per annum and 12% per annum, respectively). The balances are expected to be recovered within one year from the end of the reporting period, and are neither past due nor impaired.

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

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

	2017	*2016*
	HK$ million	HK$ million
Current or up to 1 month overdue	**2,533**	2,426
More than 1 month overdue and up to 3 months overdue	**23**	44
More than 3 months overdue and up to 6 months overdue	**12**	13
More than 6 months overdue	**33**	55
	2,601	2,538

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

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

15 Trade and other payables

	2017 **HK$ million**	*2016* HK$ million
Creditors and accrued expenses (other than those transferred to the disposal group)	**7,606**	7,748
Gross amount due to customers for contract work	**9**	2
Rental and other deposits (other than those transferred to the disposal group)	**1,542**	1,748
Forward sales deposits received	**9,987**	8,353
Derivative financial instruments	**82**	318
Amounts due to associates	**2,878**	401
Amounts due to joint ventures	**1,251**	2,653
	23,355	21,223

(a) All of the Group's trade and other payables are expected to be settled within one year or are repayable on demand except for an amount of HK$924 million (2016: HK$819 million) which is expected to be settled after more than one year from the end of the reporting period. At 31 December 2016, included in the abovementioned balance was an amount of HK$22 million which was interest-bearing at 1.75% per annum.

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

	2017 **HK$ million**	*2016* HK$ million
Due within 1 month or on demand	**1,765**	1,874
Due after 1 month but within 3 months	**526**	508
Due after 3 months but within 6 months	**268**	512
Due after 6 months	**2,244**	3,055
	4,803	5,949

(c) The amounts due to associates and joint ventures are unsecured, interest-free and have no fixed terms of repayment except for an amount due to a joint venture of HK$244 million (2016: Nil) which is unsecured, interest-bearing at 4% per annum and is wholly repayable on 31 October 2018.

16 Non-adjusting events after the reporting period

(a) After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 9.

(b) The Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of, and the shareholder's loan to, Fortune Choice Development Limited (a wholly-owned subsidiary) which owns a project under development at Kwun Chui Road, Area 56, Tuen Mun Town Land Lot No. 500, the New Territories, Hong Kong, for a cash consideration of HK$6,600 million (subject to adjustment). The transaction was completed on 5 January 2018 and proceeds of HK$6,611 million representing the full sale consideration (as adjusted) were received by the Group.

(c) On 4 January 2018, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of Trado Investment Limited ("Trado") and the shareholder's loans to Trado and its wholly-owned subsidiary, Glory United Development Limited ("Glory United"), together with the entire interest in Glory United which owns an investment property at No. 18 King Wah Road, North Point, Hong Kong, for a cash consideration of HK$9,950 million (subject to adjustment). The transaction was completed on 28 February 2018 and proceeds of HK$7,950 million representing part of the sale consideration were received by the Group.

(d) On 12 February 2018, the Group acquired from (i) HKICIM Fund III, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6562, for a total consideration of HK$6,061.83 million (subject to adjustments); and (ii) HKICIM Fund II, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6565, for a total consideration of HK$9,897.58 million (subject to adjustments). Completion of the acquisition took place on 14 February 2018.

17 Review of results

The financial results for the year ended 31 December 2017 have been reviewed with no disagreement by the Audit Committee of the Company.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

FINANCIAL REVIEW

Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated financial statements for the year ended 31 December 2017.

Revenue and profit

	Revenue			***Profit contribution from operations***		
	Year ended 31 December		*Increase/*	***Year ended 31 December***		*Increase/*
	2017	2016	*(Decrease)*	**2017**	2016	*(Decrease)*
	HK$ million	HK$ million	*%*	**HK$ million**	HK$ million	*%*
Reportable segments						
- Property development	**16,522**	17,679	*-7%*	**4,815**	3,837	*+25%*
- Property leasing	**5,678**	5,559	*+2%*	**4,287**	4,233	*+1%*
- Department store operation	**834**	871	*-4%*	**265**	298	*-11%*
- Other businesses	**1,419**	1,459	*-3%*	**1,004**	696	*+44%*
	24,453	25,568	*-4%*	**10,371**	9,064	*+14%*

	Year ended 31 December		
	2017	2016	*Increase*
	HK$ million	HK$ million	*%*
Profit attributable to equity shareholders of the Company			
- including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures	**30,433**	21,916	*+39%*
- excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures ("Underlying Profit") *(Note)*	**19,557**	14,169	*+38%*

Note :

Underlying profit attributable to equity shareholders of the Company ("Underlying Profit") excludes the Group's attributable share of fair value changes (net of deferred taxation) of the investment properties and investment properties under development held by subsidiaries, associates and joint ventures. In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties and investment properties under development disposed of during the year (which has been included in calculating the net gain on disposal of investment properties and investment properties under development and hence the profit attributable to equity shareholders of the Company during the year) of HK$2,625 million (2016: HK$2,119 million) was added back in arriving at the Underlying Profit.

Excluding the effects of certain one-off income/expense items from the Underlying Profit for the years ended 31 December 2017 and 2016, the adjusted Underlying Profit for the two financial years is as follows :

	Year ended 31 December			
	2017	2016	*Increase/(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
Underlying Profit	**19,557**	14,169	*5,388*	*+38%*
Add / (Less) :				
One-off expense / (income) items –				
Net fair value gain on derivative financial instruments relating to interest rate swap contracts (net of tax) due to ineffective cash flow hedge during the year	**(18)**	(499)	*481*	
Reclassification (net of tax) from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and guaranteed notes and their underlying interest rate swap contracts and cross-currency interest rate swap contracts during the year	**293**	10	*283*	
Impairment loss in the carrying amount of a development land site in mainland China which was surrendered during the year	**-**	75	*(75)*	
Gain on disposal (net of tax) of investments in certain available-for-sale equity securities	**(316)**	(2)	*(314)*	
Adjusted Underlying Profit	**19,516**	13,753	*5,763*	*+42%*

Discussions on the major reportable segments are set out below.

Property development

Gross revenue - subsidiaries

The gross revenue from property sales during the years ended 31 December 2017 and 2016 generated by the Group's subsidiaries, and by geographical contribution, is as follows :

	Year ended 31 December			
	2017	2016	*Decrease*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**9,555**	9,951	*(396)*	*-4%*
Mainland China	**6,967**	7,728	*(761)*	*-10%*
	16,522	17,679	*(1,157)*	*-7%*

The gross revenue from property sales in Hong Kong, relating to projects held by the Group's subsidiaries, during the year ended 31 December 2017 was contributed from "AXIS", "PARKER 33", "The Zutten" and "Eltanin • Square Mile" (all being property development projects which were completed during the year ended 31 December 2017) in the aggregate amount of HK$5,207 million, as well as from the other major completed projects such as "Double Cove Starview Prime", "Double Cove Grandview", "Double Cove Summit", "Jones Hive", "Global Gateway Tower" and "39 Conduit Road" in the aggregate amount of HK$4,348 million. By comparison, the gross revenue from property sales in Hong Kong during the corresponding year ended 31 December 2016 was contributed as to HK$6,812 million from property development projects which were completed in that year, and as to HK$3,139 million from the other completed projects.

The gross revenue from property sales in mainland China, relating to projects held by the Group's subsidiaries, during the year ended 31 December 2017 was contributed as to HK$3,184 million from the sold and delivered units in relation to Towers 1 and 2 of "Riverside Park" Phase G3 in Suzhou, the remaining portion of "Emerald Valley" Phase 2 in Nanjing, "Palatial Crest" Phases 2C and 3A in Xian and "Riverside Park" F1F2 Phase 2 in Suzhou which were completed during the year ended 31 December 2017, as to HK$2,447 million from the disposal of property development projects in Shenyang and Anshan, and as to HK$1,336 million from the sold and delivered units in relation to the other projects (comprising, in particular, "Grand Lakeview" in Yixing, "Grand Waterfront" in Chongqing and "Emerald Valley" Phase 2 in Nanjing) which were completed prior to 1 January 2017. By comparison, the gross revenue from property sales in mainland China during the corresponding year ended 31 December 2016 was contributed primarily as to HK$4,671 million from the sold and delivered units in relation to the property development projects which were completed in that year, and as to HK$1,852 million from the sold and delivered units in relation to the other projects which were completed prior to 1 January 2016.

Pre-tax profits – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax profits from property sales, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2017 and 2016, is as follows :

	Year ended 31 December			
	2017	2016	*Increase*	
	HK\$ million	HK\$ million	*HK\$ million*	*%*
By geographical contribution :				
Hong Kong	**3,281**	2,542	*739*	*+29%*
Mainland China	**2,537**	1,445	*1,092*	*+76%*
	5,818	3,987	*1,831*	*+46%*

The increase in the Group's share of pre-tax profits from property sales in Hong Kong during the year ended 31 December 2017 of HK\$739 million, or 29%, is mainly attributable to the increase in pre-tax profit contribution from "AXIS", "PARKER 33", "The Zutten" and "Eltanin • Square Mile" (all being property development projects which were completed during the year) in the aggregate amount of HK\$1,916 million, which is partially offset by the decrease in pre-tax profit contribution from "Double Cove Grandview", "Double Cove Summit" and "High One" (all being property development projects which were completed during the previous year ended 31 December 2016) in the aggregate amount of HK\$1,034 million.

The increase in the Group's share of pre-tax profits from property sales in mainland China during the year ended 31 December 2017 of HK\$1,092 million, or 76%, is mainly attributable to the increase in pre-tax profit contribution of HK\$357 million from the projects held by subsidiaries (mainly arising from the delivery of the sold units of "Riverside Park" in Suzhou) and the increase in pre-tax profit contribution of HK\$210 million from the property sales of "La Botanica" in Xian, mainland China held by a joint venture, as well as the Group's attributable share of pre-tax profit contribution of HK\$560 million from the property sales of "Henderson • CIFI City" in Suzhou, being a project in mainland China held by an associate of the Group which was completed during the year ended 31 December 2017.

	Year ended 31 December			
	2017	2016	*Increase*	
	HK\$ million	HK\$ million	*HK\$ million*	*%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries	**4,578**	3,542	*1,036*	*+29%*
Associates	**936**	187	*749*	*+401%*
Joint ventures	**304**	258	*46*	*+18%*
	5,818	3,987	*1,831*	*+46%*

The increase in the Group's share of pre-tax profit contribution from the property sales of associates during the year ended 31 December 2017 is mainly attributable to the Group's attributable share of pre-tax profit contribution of HK$560 million from the property sales of "Henderson • CIFI City" in Suzhou, mainland China.

The increase in the Group's share of pre-tax profit contribution from the property sales of joint ventures during the year ended 31 December 2017 is mainly attributable to the increase in the Group's attributable share of pre-tax profit contribution of HK$210 million from the property sales of "La Botanica" in Xian, mainland China which is partially offset by the decrease in the Group's attributable share of pre-tax profit contribution of HK$169 million from the property sales of "Amber Garden" in Shanghai, mainland China.

Property leasing

Gross revenue - subsidiaries

The gross revenue from property leasing during the years ended 31 December 2017 and 2016 generated by the Group's subsidiaries, and by geographical contribution, is as follows :

	Year ended 31 December			
	2017	2016	*Increase*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**3,979**	3,871	*108*	*+3%*
Mainland China	**1,699**	1,688	*11*	*+1%*
	5,678	5,559	*119*	*+2%*

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

The Group's attributable share of pre-tax net rental income, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2017 and 2016, is as follows :

	Year ended 31 December		*Increase/(Decrease)*	
	2017	2016		
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**5,305**	5,132	*173*	*+3%*
Mainland China	**1,344**	1,349	*(5)*	*-0.4%*
	6,649	6,481	*168*	*+3%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries	**4,284**	4,227	*57*	*+1%*
Associates	**794**	761	*33*	*+4%*
Joint ventures	**1,571**	1,493	*78*	*+5%*
	6,649	6,481	*168*	*+3%*

For Hong Kong, the year-on-year increase of 3% in gross revenue is attributable to the positive rental reversion from the Group's office investment properties which mainly include Manulife Financial Centre, AIA Tower and FWD Financial Centre, as well as the increased rental income after the completion of renovation programs for the Group's commercial investment properties which mainly include Sunshine City Plaza, KOLOUR • Tsuen Wan I, Fanling Centre and Sunshine Bazzar. Accordingly, this resulted in a year-on-year increase of 3% in pre-tax net rental income.

For mainland China, despite the effect of the depreciation of Renminbi against Hong Kong dollar by approximately 2.1% during the year ended 31 December 2017 when compared with the corresponding year ended 31 December 2016 as well as the absence of revenue contribution from Beijing Henderson Centre (the disposal of which was completed on 8 February 2017), on an overall portfolio basis, there was a year-on-year increase of 1% in rental revenue contribution but a year-on-year decrease of 0.4% in pre-tax net rental income contribution for the year ended 31 December 2017. The increase in rental revenue is mainly contributed from "World Financial Centre" in Beijing, but the slight decrease in pre-tax net rental income contribution is mainly attributable to (i) the increase in property tax expenditure for "World Financial Centre" in Beijing due to the change in tax policy on the real estate tax which commenced on 1 July 2016; and (ii) the reduced net rental income contribution from "Heng Bao Plaza" in Guangzhou which underwent renovation works during the year ended 31 December 2017. As a result, on an overall portfolio basis, the ratio of pre-tax net rental income to rental revenue for the year ended 31 December 2017 dropped slightly to 79% when compared with that of 80% for the corresponding year ended 31 December 2016.

Department store operation

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

For the year ended 31 December 2017, revenue contribution from the department store operation amounted to HK$834 million (2016: HK$871 million) which represents a year-on-year decrease of HK$37 million, or 4%, from that for the corresponding year ended 31 December 2016. The decrease is mainly attributable to (i) a significantly warmer weather during the Chinese New Year sales promotion period which therefore resulted in a decrease in the sales of winter merchandises in January and February 2017 when compared with that for the corresponding period ; and (ii) a weaker retail market sentiment in Hong Kong during the first three quarters of 2017 and which showed signs of slow recovery in the last quarter of 2017. Such decrease in revenue also mainly accounted for the decrease in profit contribution for the year ended 31 December 2017, by 11% to HK$265 million (2016: HK$298 million).

Other businesses

Other businesses mainly comprise hotel operation, construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

Revenue of other businesses for the year ended 31 December 2017 decreased by HK$40 million, or 3%, from that for the corresponding year ended 31 December 2016 to HK$1,419 million. This is mainly attributable to (i) the decrease in revenue contribution from the trading of building materials of HK$69 million; (ii) the decrease in dividend income from investments of HK$76 million, which are partially offset by (iii) the increase in interest income received from first mortgage loans and second mortgage loans offered to property buyers of HK$54 million; and (iv) the increase in revenue contribution from construction activities of HK$55 million.

The profit contribution of other businesses for the year ended 31 December 2017 increased by HK$308 million, or 44%, over that for the corresponding year ended 31 December 2016 to HK$1,004 million. This is mainly attributable to (i) an increase in profit contribution of HK$81 million from the increase in interest income received during the year from first mortgage loans and second mortgage loans offered to property buyers; (ii) the increase in the gain on disposal of the Group's investments in certain available-for-sale equity securities of HK$334 million; and (iii) the decrease in the operating loss from the hotel operation of HK$11 million due to the cessation of the business operation of Newton Inn, North Point following the completion of its disposal in July 2017, which are partially offset by (iv) the decrease in the fair value gain of HK$113 million from the Group's holding of the warrants of Miramar Hotel and Investment Company, Limited ("Miramar", a listed associate) which remained unexercised at the end of the reporting period.

Associates

The Group's attributable share of post-tax profits less losses of associates during the year ended 31 December 2017 amounted to HK$4,966 million (2016: HK$3,891 million), representing an increase of HK$1,075 million, or 28%, over that for the corresponding year ended 31 December 2016. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates (net of deferred taxation) of HK$950 million during the year ended 31 December 2017 (2016: HK$867 million) and as adjusted for by adding back the Group's attributable share of the cumulative fair value change of investment properties disposed of during the year of HK$28 million (2016: Nil) which is consistent with the basis as referred to in "Note" to the paragraph headed "Revenue and profit" above, the Group's attributable share of the underlying post-tax profits less losses of associates for the year ended 31 December 2017 amounted to HK$4,044 million (2016: HK$3,024 million), representing an increase of HK$1,020 million, or 34%, over that for the corresponding year ended 31 December 2016.

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

(i) the Group's attributable share of increase in the underlying post-tax profit contribution from The Hong Kong and China Gas Company Limited of HK$346 million, mainly due to the Group's attributable share of increase in post-tax profit contributions from the Hong Kong gas business and the utility and emerging environmentally-friendly energy businesses in mainland China, as well as net investment gains;

(ii) the Group's attributable share of increase in the underlying post-tax profit contribution from Hong Kong Ferry (Holdings) Company Limited of HK$31 million, mainly due to the Group's attributable share of increase in post-tax profit contributions of HK$15 million from the disposal of investment in equity securities, and the non-recurrence during the year ended 31 December 2017 of the Group's attributable share of an impairment loss of HK$15 million on investment in equity securities which was recognised in the previous year ended 31 December 2016;

(iii) the Group's attributable share of increase in the underlying post-tax profit contribution from Miramar of HK$83 million, mainly due to the Group's attributable share of Miramar's gain on disposal of an investment property during the year in the amount of HK$43 million (2016: Nil), the Group's attributable share of increase in post-tax profit contribution in the aggregate amount of HK$18 million from the hotel operation, and the Group's attributable share of increase in post-tax profit contribution of HK$19 million from the trading of equity securities; and

(iv) the increase in the Group's attributable share of post-tax profit contribution from the property sales of "Bohemian House" in Hong Kong and the property sales of "Henderson • CIFI City" in Suzhou (which project was completed during the year ended 31 December 2017) and "Henderson • CIFI Centre" in Shanghai, mainland China, all being projects held by the Group's associates, in the aggregate amount of HK$514 million.

Joint ventures

The Group's attributable share of post-tax profits less losses of joint ventures during the year ended 31 December 2017 amounted to HK$4,378 million (2016: HK$3,889 million), representing an increase of HK$489 million, or 13%, over that for the corresponding year ended 31 December 2016. Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures (net of deferred taxation) of HK$2,929 million during the year ended 31 December 2017 (2016: HK$2,436 million), the Group's attributable share of the underlying post-tax profits less losses of joint ventures for the year ended 31 December 2017 amounted to HK$1,449 million (2016: HK$1,453 million), representing a decrease of HK$4 million, or 0.3%, from that for the corresponding year ended 31 December 2016.

Such year-on-year decrease in the underlying post-tax profits was mainly attributable to the decrease in the Group's attributable share of the aggregate post-tax profit contribution of HK$162 million from the property sales of "Mount Parker Residences" and "Royal Peninsula" carparking spaces in Hong Kong and "Amber Garden" in Shanghai, mainland China, which is partially offset by (i) the net increase in the Group's attributable share of post-tax profit contribution of HK$43 million from the property leasing and hotel operations of the joint ventures, mainly in relation to the ifc project; and (ii) the increase in the Group's attributable share of the aggregate post-tax profit contribution of HK$111 million from the property sales of "Global Trade Square" in Hong Kong and "La Botanica" in Xian, mainland China. .

Finance costs

Finance costs (comprising interest expense and other borrowing costs) before interest capitalisation for the year ended 31 December 2017 amounted to HK$1,534 million (2016: HK$1,740 million). Finance costs after interest capitalisation for the year ended 31 December 2017 amounted to HK$837 million (2016: HK$882 million), and after set-off against the Group's bank interest income of HK$633 million for the year ended 31 December 2017 (2016: HK$327 million), net finance costs recognised as expenses in the Group's consolidated statement of profit or loss for the year ended 31 December 2017 amounted to HK$204 million (2016: HK$555 million).

During the year ended 31 December 2017, the Group's effective borrowing rate in relation to (i) the Group's bank and other borrowings in Hong Kong was approximately 2.18% per annum (2016: approximately 2.95% per annum) ; and (ii) the Group's bank and other borrowings in mainland China was approximately 4.50% per annum (2016: approximately 4.66% per annum). Overall, based on the Group's total debt of HK$80,304 million at 31 December 2017 (2016: HK$56,400 million) as referred to in the paragraph headed "Maturity profile and interest cover" below and the entire amount of which (2016: 99.5%) is represented by the Group's bank and other borrowings in Hong Kong, the Group's effective borrowing rate during the year ended 31 December 2017 was approximately 2.19% per annum (2016: approximately 2.97% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$9,911 million in the consolidated statement of profit or loss for the year ended 31 December 2017 (2016: HK$7,013 million).

Financial resources and liquidity

Medium Term Note Programme

At 31 December 2017, the aggregate carrying amount of notes guaranteed by the Company and issued under the Group's Medium Term Note Programme established on 30 August 2011 and which remained outstanding was HK$4,015 million (2016: HK$8,004 million), with tenures of between seven years and twenty years (2016: between five years and twenty years). The decrease of HK$3,989 million in the carrying amount of the Group's guaranteed notes in issue during the year is mainly attributable to (i) the repayment of guaranteed notes in the principal amount of US$700 million (equivalent to HK$5,427 million) in February 2017; and (ii) the issuance of guaranteed notes denominated in Hong Kong dollars and Japanese Yen ("¥") in the principal amounts of HK$1,200 million and ¥2,000 million in November 2017 and December 2017, respectively (and which are due for maturity in November 2032 and December 2032, respectively), which in aggregate amounted to HK$1,339 million. These notes are included in the Group's bank and other borrowings at 31 December 2017 as referred to in the paragraph headed "Maturity profile and interest cover" below.

Maturity profile and interest cover

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

	At 31 December 2017 HK$ million	At 31 December 2016 HK$ million
Bank and other borrowings repayable:		
- Within 1 year	**24,675**	20,152
- After 1 year but within 2 years	**20,841**	6,712
- After 2 years but within 5 years	**27,150**	28,681
- After 5 years	**5,884**	539
Amount due to a fellow subsidiary	**1,754**	316
Total debt	**80,304**	56,400
Less:		
Cash and bank balances	**(24,673)**	(22,966)
Net debt	**55,631**	33,434
Shareholders' funds	**293,125**	263,534
Gearing ratio (%)	**19.0%**	12.7%

At 31 December 2017, after taking into account the effect of swap contracts, 23% (2016: 45%) of the Group's total debt carried fixed interest rates.

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

The interest cover of the Group is calculated as follows :

	Year ended 31 December	
	2017	2016
	HK$ million	HK$ million
Profit from operations (including bank interest income, but before changes in fair value of investment properties and investment properties under development) plus the Group's share of the underlying profits less losses of associates and joint ventures	**20,011**	15,007
Interest expense (before interest capitalisation)	**1,374**	1,564
Interest cover (times)	**15**	10

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

Treasury and financial management

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

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

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes and the Bond in the aggregate principal amounts of US$629,000,000, £50,000,000, S$200,000,000 and ¥2,000,000,000 at 31 December 2017 (2016: the Notes and the Bond in the aggregate principal amounts of US$672,000,000, £50,000,000 and S$200,000,000 and the bank borrowings denominated in Japanese Yen in the principal amount of ¥10,000,000,000 but which were fully repaid by the Group in February 2017), cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars which bear floating interest rates in the aggregate principal amount of HK$11,450,000,000 at 31 December 2017 (2016: HK$11,450,000,000), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure.

Material acquisitions and disposals

Material acquisition

On 16 May 2017, a wholly-owned subsidiary of the Company received a letter from the Lands Department of the Government of the Hong Kong Special Administrative Region of the People's Republic of China, confirming its acceptance of the Company's tender for a piece of land situated at Murray Road, Central, Hong Kong (registered in the Land Registry as Inland Lot No. 9051) at the land premium of HK$23,280 million. The land premium was fully settled by the Company on 13 June 2017 and was funded by the Group's internal resources and bank financing. The site will be developed into a landmark office building with retail facilities and is expected to be completed in around 2022.

Material disposals

On 1 February 2017, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of, and the shareholder's loan to, Landrise Development Limited (a wholly-owned subsidiary) which owns the property occupied by Newton Place Hotel, Kwun Tong. The transaction was completed on 15 September 2017. The Group received an adjusted consideration of HK$2,244 million and recognised a gain attributable to the Group's reported profit and underlying profit for the year ended 31 December 2017 in the amount of HK$1,491 million.

On 17 February 2017, the Group entered into a conditional agreement with a deemed connected person pursuant to which the Group transferred its interest in the entire issued share capital of Enhance Invest Inc. and the loan owing by Conradion Limited (both being wholly-owned subsidiaries) together with its entire interest in Conradion Limited which owns the property occupied by Newton Inn, North Point. The transaction was completed on 12 July 2017. The Group received an adjusted consideration of HK$1,000 million and recognised a gain attributable to the Group's reported profit and underlying profit for the year ended 31 December 2017 in the amount of HK$697 million.

On 20 March 2017, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of, and the shareholder's loan to, Hennon International Limited (a wholly-owned subsidiary) together with its entire interest in 廣州芳村恒基房地產發展有限公司 (a Sino-foreign cooperative joint venture enterprise established in mainland China) which owns a land site in Fangcun, Guangzhou, mainland China. The aggregate cash consideration (together with the repayment of related party loans) for the transaction amounted to RMB1,790 million (equivalent to HK$2,017 million). Completion of the transaction took place on 20 March 2017 and the Group recognised a gain after tax attributable to the Group's reported profit and underlying profit for the year ended 31 December 2017 in the amount of HK$1,045 million.

On 29 May 2017, the Group entered into a legally-binding memorandum with an independent third party in relation to the transfer by the Group of its entire interest in certain wholly-owned subsidiaries which through their subsidiaries in mainland China altogether own nine property development projects located in Anshan, Dalian, Guangzhou, Tieling and Shenyang, mainland China. The aggregate cash consideration (together with the repayment of related party loans) for the transaction amounted to approximately HK$8,544 million (subject to adjustments). The transaction was completed upon execution of the relevant agreements on 5 July 2017 with balance of the consideration to be settled by instalments. The Group recognised a gain after tax attributable to the Group's reported profit and underlying profit for the year ended 31 December 2017 in the amount of HK$280 million (subject to adjustments) and HK$275 million (subject to adjustments), respectively.

On 28 November 2017, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of, and the shareholder's loan to, Fortune Choice Development Limited (a wholly-owned subsidiary) which owns a project under development at Kwun Chui Road, Area 56, Tuen Mun Town Land Lot No. 500, the New Territories, Hong Kong, for a cash consideration of HK$6,600 million (subject to adjustment). At 31 December 2017, the transaction had yet to be completed.

During the year ended 31 December 2017, the Group disposed of its entire investments in certain available-for-sale equity securities for an aggregate consideration of HK$1,833 million, as a result of which the Group recognised an aggregate gain on disposal (net of tax) of HK$316 million.

Save for the aforementioned, the Group did not undertake any other significant acquisitions or any other significant disposals of subsidiaries during the year ended 31 December 2017.

Completion of the transaction contemplated under the disposal group as held for sale

Reference is made to the agreement entered into by the Group with an independent third party on 8 December 2016 in relation to the transfer by the Group of its entire issued share capital of, and the shareholder's loan to, a wholly-owned subsidiary together with its entire interest in a Sino-foreign co-operative joint venture enterprise in mainland China which owns Beijing Henderson Centre, Beijing, mainland China, for an aggregate consideration of HK$3,261 million (subject to adjustment). The related assets and liabilities were classified as a disposal group held for sale at 31 December 2016.

The transaction was completed on 8 February 2017 and the Group recognised a gain after tax attributable to the Group's reported profit and underlying profit for the year ended 31 December 2017 in the amount of HK$441 million and HK$1,014 million, respectively.

Charge on assets

Assets of the Group's subsidiaries were not charged to any third parties at 31 December 2017 (2016: assets of the Group's subsidiaries were not charged to any third parties, except for certain available-for-sale securities and held-to-maturity debt securities in the aggregate carrying amount of HK$411 million which were pledged in favour of a financial institution for credit facilities granted to a wholly-owned subsidiary of the Group).

Capital commitments

At 31 December 2017, capital commitments of the Group amounted to HK$27,548 million (2016: HK$27,493 million). In addition, the Group's attributable share of capital commitments undertaken by joint ventures and certain associates at 31 December 2017 amounted to HK$6,222 million (2016: HK$2,122 million).

The Group plans to finance its capital expenditure requirements for the year ending 31 December 2018 by way of the Group's own internally generated cash flow, bank deposits, banking facilities and funds raised from the capital market in previous years.

Contingent liabilities

At 31 December 2017, the Group's contingent liabilities amounted to HK$2,115 million (2016: HK$2,130 million), of which :

(i) an amount of HK$1,237 million (2016: HK$40 million) relates to performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects, the substantial increase of which is mainly attributable to the project development of "Eden Manor" during the year ended 31 December 2017; and

(ii) an amount of HK$837 million (2016: HK$2,077 million) relates to guarantees given by the Group to financial institutions on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2017 (and such guarantees will be released upon the issuance of the Building Ownership Certificate).

Employees and remuneration policy

At 31 December 2017, the Group had 8,590 full-time employees which comprised 996 full-time employees of the Group's security guard services operation and 7,594 full-time employees of the Group's other business operations (2016: 8,914 full-time employees which comprised 882 full-time employees of the Group's security guard services operation and 8,032 full-time employees of the Group's other business operations). The decrease in the Group's headcount is mainly attributable to the decrease in 432 full-time employees during the year ended 31 December 2017, due to (i) the completion of the disposal of Beijing Henderson Centre and nine property development projects located in Anshan, Dalian, Guangzhou, Tieling and Shenyang, mainland China during the year, as well as the streamlining of manpower requirements as certain projects in mainland China have reached the final phase of their development and following the entrustment of the operations and management of certain project companies in mainland China to local operators; (ii) longer transitional vacancy period for property service attendants in Hong Kong during the year; (iii) the cessation of the property management operation at two locations in mainland China; (iv) the scaling down of the hotel operation following the disposal of the Group's two hotel properties during the year; and (v) the completion of the disposal of a development land site in Fangcun, Guangzhou, mainland China during the year as well as the separation of certain staffs under other business operations in mainland China.

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

Total staff costs charged to profit or loss for the year ended 31 December 2017 amounted to HK$2,284 million (2016: HK$2,190 million), which comprised (i) staff costs included under directors' remuneration of HK$149 million (2016: HK$150 million) ; and (ii) staff costs (other than directors' remuneration) of HK$2,135 million (2016: HK$2,040 million).

Non-adjusting events after the reporting period

On 5 January 2018, the Group's transfer of its interest in the entire issued share capital of, and the shareholder's loan to, Fortune Choice Development Limited (as referred to in the paragraph headed "Material acquisitions and disposals" above) was completed. Proceeds of HK$6,611 million representing the full sale consideration (as adjusted) were received by the Group.

On 4 January 2018, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of Trado Investment Limited ("Trado") and the shareholder's loans to Trado and its wholly-owned subsidiary, Glory United Development Limited ("Glory United"), together with the entire interest in Glory United which owns an investment property at No. 18 King Wah Road, North Point, Hong Kong, for a cash consideration of HK$9,950 million (subject to adjustment). The transaction was completed on 28 February 2018. Proceeds of HK$7,950 million representing part of the sale consideration were received by the Group.

On 12 February 2018, the Group acquired from (i) HKICIM Fund III, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6562, for a total consideration of HK$6,061.83 million (subject to adjustments) ; and (ii) HKICIM Fund II, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6565, for a total consideration of HK$9,897.58 million (subject to adjustments). Completion of the acquisition took place on 14 February 2018.

OTHER INFORMATION

Closure of Register of Members

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

   The Register of Members of the Company will be closed from Tuesday, 29 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to be entitled for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 28 May 2018.

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

   The Register of Members of the Company will be closed from Thursday, 7 June 2018 to Monday, 11 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and bonus shares, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s share registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Wednesday, 6 June 2018.

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

Except for the issue of bonus shares on 21 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Audit Committee

The Audit Committee met in March 2018 and reviewed the risk management and internal control systems, and the annual report for the year ended 31 December 2017.

Corporate Governance

During the year ended 31 December 2017, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the “CG Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. The Board of Directors is of the view that it is in the best interest of the Company that Dr Lee Shau Kee, with his profound expertise in property business, shall continue in his dual capacity as the Chairman and Managing Director.

Model Code for Securities Transactions by Directors

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

Forward-Looking Statements

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

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 21 March 2018

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