Strong Roots for Growth

恒隆地產
HANG LUNG PROPERTIES

Annual Report 2017

HANG LUNG PROPERTIES LIMITED
STOCK CODE: 00101

Strong Roots for Growth

Hang Lung Properties' prized portfolio of properties featured prominently on the cover and in this year's Annual Report are the strong roots for our sustainable growth. While signifying the fruitful returns generated by our assets in Hong Kong and mainland China, the leaves with growing linings are also a distinct reminder of our corporate values and commitment as a leading commercial property developer that builds, manages and owns world-class commercial complexes in Hong Kong and mainland China. On closer scrutiny, they are also a symbol of our professional teams, whose members work closely with each other to underpin our ongoing drive for growth and excellence.

Vision

Excellence

Fruitful

Commitment

Clarity

We Do It Right

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

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

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

Corporate Profile

Hang Lung Properties Limited (stock code: 00101) is the property arm of Hang Lung Group Limited (stock code: 00010).

We are a top-tier property developer in Hong Kong and on the Mainland with a recognized commitment to quality.

We are a truly diversified property developer with a varied portfolio of commercial, office, residential, serviced apartment, industrial/office and car park properties. Our primary focus is to acquire the best sites in the cities with growth potential and employ only the top architectural firms to achieve the highest design quality and develop the best properties.

In Hong Kong and on the Mainland, our corporate strategy is to constantly review and, where necessary, upgrade our tenant mix and enhance our existing developments so as to achieve a maximum return on our investments. We also emphasize value-added services and incentives, which add to the appeal and marketability of our properties.

Our long-term vision is to expand on the Mainland while continuing to invest in our home market of Hong Kong. As our business will certainly continue to grow, we are set to develop into a highly admired and leading national commercial property developer.

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Financial Highlights

Results

For the year ended December 31

in HK$ Million (unless otherwise stated)	2017	2016
Revenue		
Property leasing	**7,779**	7,737
Mainland China	**3,958**	3,995
Hong Kong	**3,821**	3,742
Property sales	**3,420**	5,322
Total revenue	**11,199**	13,059
Net profit attributable to shareholders	**8,124**	6,195
Dividends	**3,373**	3,373
Shareholders' equity	**136,158**	126,565
Per share data		
Earnings	**$1.81**	$1.38
Dividends		
Total	**$0.75**	$0.75
Interim	**$0.17**	$0.17
Final	**$0.58**	$0.58
Shareholders' equity	**$30.3**	$28.1
Net assets	**$31.6**	$29.4
Financial ratio		
Payout ratio	**42%**	54%
Net debt to equity ratio	**1.9%**	2.1%
Debt to equity ratio	**17.4%**	20.5%

Underlying Results

For the year ended December 31

in HK$ Million (unless otherwise stated)	2017	2016
Underlying net profit attributable to shareholders	**5,530**	6,341
Earnings per share (Note 1)	**$1.23**	$1.41
Payout ratio (Note 1)	**61%**	53%

Note:

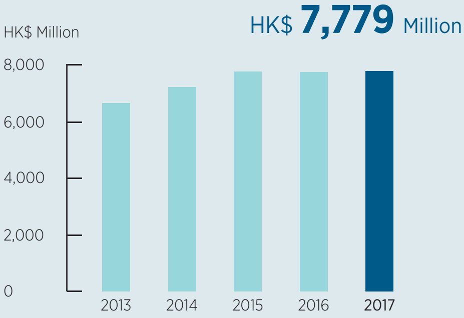
1. The relevant calculations are based on the underlying net profit attributable to shareholders.

Rental Revenue

Overall

+1%

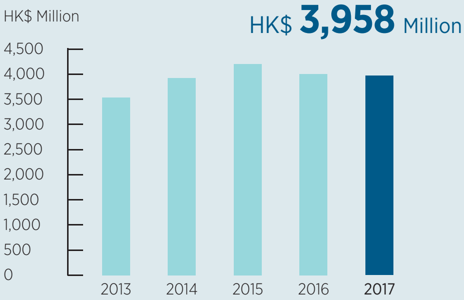
HK$ **7,779** Million



Mainland China

-1%

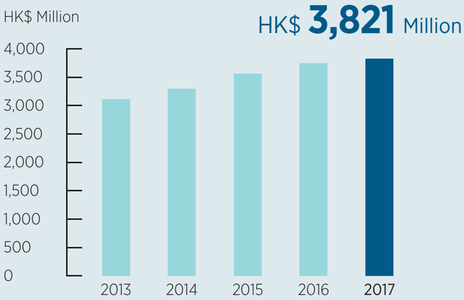
HK$ **3,958** Million



Hong Kong

+2%

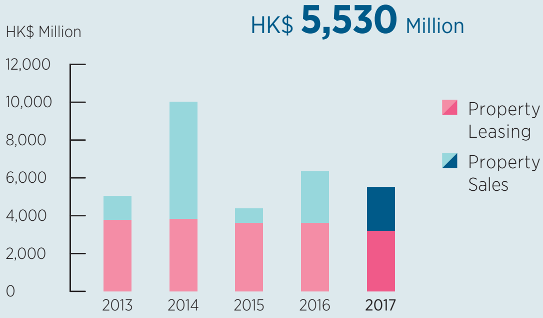
HK$ **3,821** Million



Underlying Net Profit

-13%

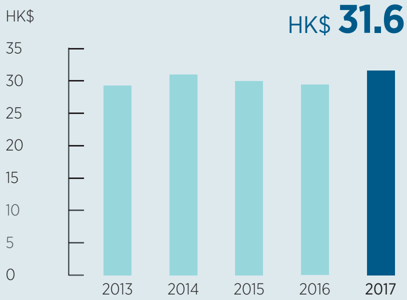
HK$ **5,530** Million



Net Assets per Share

+7%

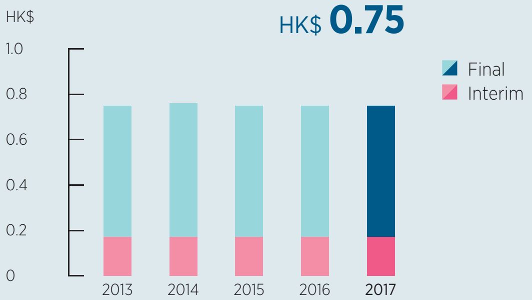
HK$ **31.6**



Dividends per Share

Same

HK$ **0.75**



2017 Highlights

JAN

- **JobMarket**
  — Corporate Sustainability Award
- **Certification under Leadership in Energy and Environmental Design (LEED) for Core and Shell Development**
  — Gold Level — Forum 66 — Office Tower

FEB

- **2016/2017 MERCURY Awards**
  — Annual Reports — Overall Presentation: Real Estate Developer — Gold Award
  — Annual Reports — Overall Presentation: Property Development — Gold Award

MAR

- **2017 ICSC VIVA (Vision, Innovation, Value, Achievement) Best of the Best Awards**
  — Honoree title in the Marketing Category — Fashion Walk — Fashion Intelligence Index

APR

- Promotion of Accessibility for the Disabled Association in Shenyang
  — **Best Barrier-free Facilities in Commercial Property Category** — Palace 66

MAY

- **HR Asia** — Best Companies to Work for in Asia 2017
- **Hong Kong Investor Relations Association**
  — Best IR Presentation Collaterals (Large Cap) Award
- **2017 Asia Pacific Stevie Awards**
  — Silver in the "Innovation in Consumer Events — Advertising, Marketing & Public Relations" — Plaza 66
  — "Santa's Atelier" Program

JUN

- **Asia Pacific Customer Service Consortium**
  — International Customer Relationship Excellence Awards
  — Property Management category — Corporate Social Responsibility Leadership of the Year, Best Use of Technology of the Year, Best Use of Knowledge Management of the Year, Employee Engagement Program of the Year, People Development Program of the Year and Corporate Employer of the Year

AUG

- **Emerald Awards presented to six frontline staff members who demonstrated extraordinary excellence in customer service**
- **The Marketing Events Awards 2017**
  — Best Mall Event — Gold Award — The Peak Galleria
  — "Fear in the Ears" installation at Halloween Haunted Playground Campaign 2016
- **The Marketing Events Awards 2017**
  — Best Event — Design — Silver Award — Fashion Walk
  — Joy of Lights 2016

SEP

- **Dow Jones Sustainability Indices**
  — Listed as an Index Component in the Asia Pacific Index
- **Celebration of the completion of mega-scale transformation of Plaza 66 in Shanghai that redefined the realm of modern luxury retail in China**
- Promotion of Accessibility for the Disabled Association
  — **Best Barrier-free Facilities** — Forum 66

OCT

- **2017 Galaxy Awards**
  — The Chairman's Letter to Shareholders
  — Bronze Award

- Launched large-scale CSR campaign in Hong Kong
  — **Hang Lung Young Architects Program**

NOV

- **Guandian**
  — China Top 100 Players in Commercial Real Estate — Second
- Union for the Disabled in Jinan
  — **Best Barrier-free Facilities** — Parc 66
- **2017 International Council of Shopping Centers (ICSC) Asia-Pacific Shopping Center Awards**
  — Design and Development — New Development — Gold Award and Sustainable Design Award — Olympia 66

- Fashion Walk
  — Walk Your Fashion Promotion Campaign clinched five awards under the **2017 Kam Fan Awards**

DEC

- Hong Kong Institute of Certified Public Accountants
  — **2017 Best Corporate Governance Awards**
  — Commendation for Internal Control and Risk Management
- **MIPIM Asia Awards 2017**
  — Best Retail Development — Silver Award — Olympia 66

VISION

At Hang Lung, we are driven by a shared vision: to always strive for excellence and scale new heights.

Chairman's Letter to Shareholders

Ronnie C. Chan
Chairman

Results and Dividend

For the year ended December 31, 2017, revenue decreased 14% to HK$11,199 million because fewer residential apartments were sold over the previous year. Net profit attributable to shareholders increased 31% to HK$8,124 million. Earnings per share likewise grew to HK$1.81.

When excluding all the effects of property revaluation gain, the underlying net profit attributable to shareholders fell 13% to HK$5,530 million.

The Board recommends a final dividend of HK58 cents per share payable on May 16, 2018 to shareholders of record on May 3, 2018. If approved by shareholders, total dividends per share for the year ended December 31, 2017 will be HK75 cents which is the same as the year before.

Business Review

Retail sales continued to recover in both mainland China and Hong Kong. This has yet to be translated into higher rents due to the lagging effect of lease contracts. It will likely take another 12 to 18 months after which our results should be positively impacted.

On the Mainland, the recovery of retail sales of luxury products is particularly strong. On a year-on-year and like-for-like basis, all our malls saw improvements, ranging from 1% in the case of Shenyang Forum 66 to 99% for Dalian Olympia 66. Most of the others increased by 10% to 12%, with Shanghai Plaza 66 climbing 26%. Occupancy rate also advanced in almost all properties, with the biggest rise in Wuxi Center 66 and Tianjin Riverside 66.

Overall, there were far fewer instances of lease terminations and negative rent reversions than in the past few years. In the cases of Shanghai Grand Gateway 66 and Wuxi Center 66, the fall in rental revenue was entirely due to the renovation and construction works that took some retail space out of the market. In the former, on average 20% of the retail space was under renovation, with 30% affected at one stage. On a like-for-like basis, the rents collected were 7% higher than the year before. In Wuxi, not counting the 9% retail space taken out by the construction of the second office tower, the revenues received were flat. Comparing the second half of 2017 to the first six months of the year, the rents were up 9%.

Offices in Shanghai remained under pressure. Rental income retreated by 8% due primarily to the lead time required to replace a major tenant at Plaza 66. A new long lease is now signed at an attractive rate. The incoming tenant is of a much higher quality than the outgoing one. The office towers in Wuxi Center 66 and Shenyang Forum 66 have done well, with occupancy rates reaching 80% or above, in fact close to 90% for Center 66.

All this tells us that the six-year winter is now behind us. Even Forum 66, the most challenging property, is gradually improving. The new on-site management team is delivering positive results. Everywhere, I expect our operating numbers to further advance in the coming year or two.

The recovery of Hong Kong retail sales was stronger in the second half of the year. Excluding certain properties that were undergoing major renovations, our rental revenue rose 3% while retail sales increased 8%. However, as explained six months ago, years of outperformance when the market contracted has left our rents with a much higher basis. Consequently, I do not expect them to grow as much as in the past few years. Low single-digit increases should be achievable.

Hong Kong residential sales remained strong. Since the minor correction in the second quarter of 2016, the market has been rising. Growth rate has moderated somewhat in the second half of 2017 but there are signs that the upward trend may resume.

Taking advantage of such market movements, we further sold down our inventory at good profits. Having parted in 2016 with much that was remaining, we did not have as much to sell in 2017. Consequently, total sales and profit both fell. Whereas we sold 436 units of The Long Beach in 2016, the number for the year under review was 226, with only 10 remaining unsold at year-end. As of today, only six apartments are left. In the case of The HarbourSide, we parted with the very last of the 1,122 luxury units in the first half of 2017. In both projects, profit margin kept rising until the very end. It was around 65% for The Long Beach and 85% for The HarbourSide.

Last year we sold another semi-detached house at 23-39 Blue Pool Road. This month alone we parted with two others, leaving 13 units unsold. We may be able to do more for the rest of this year. Interestingly, only one of the five houses sold so far was to a mainland Chinese buyer. Profit margin has been satisfactory.

Taking all of the above together, rental income both on the Mainland and in Hong Kong did not change much from the year before. Because far fewer Hong Kong residences were sold, revenue therefrom fell 36%. Net profit attributed to shareholders advanced 31% due to revaluation gains. Taking them out, the underlying net profit attributable to shareholders retreated 13%.

Such a set of results should not surprise anyone, at least not the regular readers of this letter and of that to the shareholders of Hang Lung Group Limited (HLGL), our majority shareholder. The numbers basically reflected our view of the market and our own condition as I had presented six months ago. The retail environment everywhere has definitely improved which will soon favorably impact our bottom line. There is little doubt in my mind that better days are ahead.

There are two reasons for my optimism. First, under our CEO Mr. Philip Chen, we have in the past seven years greatly transformed our management. Ours is a much better company today, and one which is more prepared to cope with the ever-changing market conditions. We will continue to make improvements.

The second is that China's economy is undergoing desirable changes. Private consumption is fast becoming a major pillar. Not long ago it accounted for about one-third of the economy; now it is over 40% with the economic pie being much bigger. By comparison, the same number in the U.S. is around 69%. Over time, China will move closer to the American level, although it is doubtful if it would ever get as high as that of the U.S. With their propensity for a high savings rate, it is hard to see the Chinese consume that much. But for the number to grow from today's level to say 50% to 55% is possible. All along, the total economy is expanding, for it is conceivable that the annual GDP growth will remain above 6% or even over 6.5% for the coming several years. This is good news for us.

In 2017, China's exports have also risen nicely. The growth rate for public investment has however moderated. Conceptually the latter can be used as a buffer to adjust the rate of economic growth. Of the three horses pulling the economy — exports, public investment, and consumption — public investment is the only one that is basically under the control of the government, and Beijing certainly has the financial resources to do more of it if they want to.

Whatever the case, from all indications, it seems that for now the Central Government is happy that private consumption is playing a bigger role than ever. This, I assume, is part of what Beijing leaders call quality growth. Many economists in the West would agree.

Another way of comparing China's private consumption with that of other major nations is to look at the average per capita square meter of retail space. The U.S. is the most "over-malled" — for every citizen, there are over 2.2 square meters. No one comes close; the next is Canada with 1.5 square meters per capita. Hong Kong, Singapore, and Australia each has about 1.1 square meters per person. Then the numbers drop off. In Europe, the U.K. has the most at 0.5, France is below 0.4, Italy and Spain each has less than 0.3, and Germany, not even 0.2.

The number for China is similar to Italy and Spain at 0.3 square meters per person. This is less than one-seventh of that in the U.S. Taking out China's huge rural population — approximately 43% of 1.38 billion — with less consumption power, and allocate all retail space just to city dwellers, the number would still be only around 0.5 square meters.

So why do some investors complain that China has too many malls? First, most of the new facilities are concentrated in tier-one and tier-two cities. Second, the rate of space addition can be mind-boggling. Although the per capita retail space numbers are favorable for China, the impression to the casual observer is a different story. This "oversupply" together with the onslaught of e-commerce have caused some investors to shy away from Chinese retail real estate. It is amazing how some analysts observing the oversupply in the U.S. market have assumed that China has the same problem.

That said, it is nonetheless correct that many shopping centers in China will, like some of their American counterparts, close down in the coming years. As I have previously written, many of these properties, while relatively new, are of inferior if not pathetic quality. They are located at undesirable places, wrongly designed, and poorly constructed. Frankly they do not deserve to survive. Eventually, consumer sales dollars will concentrate on the better malls including those in our portfolio. While competition is cruel to the weak players, they can in fact make the strong ones stronger. Such is the market economy.

Compared to anywhere else in the world, we count ourselves fortunate to be operating in markets such as those of tier-one and tier-two cities in China. The country's economy is growing at 6% to 7% per annum. Middle class salaries and private consumption are both rising faster than GDP. Many citizens have only in the past decade or two become purchasers of goods beyond the basic daily necessities. This makes them motivated shoppers.

The physical environment of tier-one and tier-two cities in China is also conducive to good business for retail shops and mall owners. Population density is inevitably high which provides a large catchment area for well-located and well-built malls. Whether through e-commerce or physical store visitation, shopping is convenient.

In my 2011 year-end letter to shareholders, I contrasted what I considered to be the three markets with the best shopping centers — Las Vegas in the U.S., Dubai in the United Arab Emirates, and China. Whereas new ideas and novel designs often begin in Las Vegas, Dubai mall developers improve upon them and make their facilities bigger and better. Their Chinese counterparts, like us, come later and so can learn from everyone.

The three places however have significant dissimilarities; their market dynamics are totally different. As explained before, shopping in Las Vegas plays third fiddle to gambling and various forms of entertainments such as shows and concerts of all sorts. In Dubai, a city where I have regularly visited in the past two decades, many shoppers are actually not from the Emirate. After all, the local population is not that big. Their malls draw shoppers from neighboring emirates and countries, from Sharjah to Ras Al Khaimah, and from Saudi Arabia to Oman. The question is how often does the same shopper return — quarterly or half yearly? In China, population density ensures that within a short distance, there are hundreds of thousands of regular customers. They can easily come every day if they want to and if a mall is good enough to attract them.

While comparing China's malls with those in other countries, I should add that like nowhere else, our properties are by far the most spectacular architecture-wise. Every shopping center of ours can rightfully be considered as quality public art. Beyond just placing say nice sculptures inside or outside the building, our entire structure, always sizable, is a design masterpiece. Not many people I believe will dispute this statement. There are very few, if any, mall developers who pay so much attention to the shape and elevation of their buildings.

Although it may cost us a little more to design and construct, it is good business in the long run. First, many municipal leaders from around the country want us in their city. We help beautify their environment. The image thus created helps them raise the profile of their city and differentiate them from others in front of their political bosses in Beijing. It will not hurt their personal chance of career advancement. Their desire to have a Hang Lung 66 project in their city has given us a slight edge in winning land.

On a more altruistic and less personal level, we believe that designing and erecting exceptionally beautiful buildings in a city helps fulfill our determination to be a responsible enterprise that gives back to society. It is a service we provide to all citizens irrespective of whether they are our customers or not. As society becomes more prosperous, people begin to seek aesthetics which is innate to all mankind. We try to help in this regard and, in the process, help foster a more harmonious society.

We recognize that in many countries, the opportunity to design and construct architecturally significant malls in city centers may not exist. This is certainly the case in most major European cities. Because of their history, it is almost impossible to have a piece of sizeable land in the town center. This is why the entire continent hardly has such big shopping centers. In the past decade or so, London finally saw a few rather large malls, situated more or less in-town, that are quite nice inside. Yet, little attention is given to the exterior. Their proximity to many neighboring buildings makes it superfluous to spend money on it, for there is not sufficient surrounding space for shoppers and other citizens to appreciate it.

The same is not true in China. In the past two to three decades, the downtown of all major municipalities went through tremendous transformation. Old and shabby structures were almost always pulled down to make way for newer buildings. The sad thing is that many of the latter are also of inferior design and construction. Nevertheless, it allows conscientious developers like us, who invariably own our complexes for the long term, to put up large and beautiful architectural pieces. No wonder every one of our malls has won international as well as national design awards.

Obviously biased, I as a lover of architecture have yet to build a commercial project in mainland China that I do not like. Aesthetics is a very personal matter, so I cannot expect every individual to like every one of our developments. Nevertheless, few will disagree that every one of them is an architectural statement.

Needless to say, we must balance aesthetics with practicality. We never forget that we are a commercial enterprise in a free market economy with competition. As such, our design must yield highly functional space where our tenants can sell products well and we can collect good rents. Our experience has proven that a balance can be struck, and we do not need to sacrifice revenue for beauty. We are proud of what we have developed. I know of no other mall owner who has a portfolio like ours.

Paying attention to a building's exterior does not mean that we neglect the interior. But we never forget that inside the malls, the stars are our tenants. We do not compete with them; our job is to create a comfortable and conducive environment for shops and shoppers alike. Over the years, we have made mistakes in design and have learned from them. Some errors are impossible to be completely reversed. We will have to live with some imperfections. Nevertheless, lessons learned will help make our future projects better.

Prospects

Earlier I stated that both the recovery of mainland Chinese retail sales and the improvements in our management team should prove auspicious for our future. Here I may add that perhaps the results of the recently concluded 19th Party Congress may point to a continued stability on the social front. If this is correct, then the stars would seem to be all aligned for a few promising years ahead.

However, it is hard to believe that life can be always favorable and peaceful. After all, a dose of caution is always healthy for anyone in management. It keeps the mind alert and sharp.

To be sure, the Chinese system is prone to black swan events. From the 1950's to the 1980's, there were serious troubles in every decade, some of which lasted more than 10 years. The fact that now for almost 30 years, China has been relatively peaceful socially and economically is in itself a miracle. We can only hope that good days will continue. Recent developments seem to be encouraging.

What then can keep me awake at night? Government policy mishaps. In China, many of the macroeconomic — including finance-related — policy decisions are highly concentrated in a few top officials of the Central Government. As the economy grows in size and complexity, and is increasingly integrated with the global system, such policy decisions can become extraordinarily treacherous. There are simply too many moving parts. To be able to understand all possible serious consequences becomes almost impossible. This is not to mention all the unintended consequences.

Chairman's Letter to Shareholders

Two to three years ago, Beijing's certain actions related to the RMB and the stock market greatly surprised the system and became a laughing stock of the world. Fortunately the damage that they had inflicted on and beyond its reputation was manageable. Could other mistakes be made that would have much graver consequences? It seems inevitable. To have this happen is to be expected; to successfully avoid such mistakes is to be lucky. This is in no way an indictment of the intention or ability of top leaders. The system is just way too complicated for anyone.

When biased foreigners read this, some may jump to the conclusion that the Chinese system is inferior and unsustainable. In the West, market forces have a much bigger say and decision-making is far more diffused. They think their mechanism is safer but hardly so! Such people forget that only a decade ago, the financial market operating under free market principles brought the global economy to the brink of total collapse. Just as in the Asian Financial Crisis of 1997-2002, Malaysia refused to open its market to the world and was thus preserved, so in the Global Financial Crisis of 2007-2008, China was then not as integrated with the global financial market as it is today and so was spared.

The epicenter of this latest catastrophe was squarely in the "capital" of free market — Wall Street in New York City. The damage that it caused on the global economy was far more severe than the Asian problem of a decade earlier. Some experts say that parts of the global economy, such as Europe, are still suffering from the aftermath. Could it happen in the West again? Absolutely! When it does, will we be as fortunate as the last time and not go over the cliff? No one at this stage can tell, but total economic collapse is a distinct possibility.

At the height of the crisis, I was invited to the home of a good friend, the late Mr. John Whitehead, for dinner. That must have been in the summer of 2008. As many of my readers know, he was a former co-chair of Goldman Sachs, and later Deputy Secretary of State under U.S. President Ronald Reagan. All would agree that he was one of the most honorable and respected investment bankers of the past several decades. Over dinner he expressed his worry of a total economic collapse. If only I were to repeat his words here!

A basic element which gives rise to a potentially dangerous environment for the global economy today is the over-abundance of capital. World War II ended some 70 years ago and we have witnessed a relatively peaceful period when wealth could be accumulated in great quantities. So much so that capital has increasingly overtaken other factors of production such as labor and natural resources. Making money with money has become a necessity. It is not that people do not want to invest this money in productive industries like manufacturing or services. There is simply too much capital around, and making money with money becomes not only necessary but also most profitable.

Some may say that technology has been the main driver of wealth creation. This is to some extent true especially in the past decade or two. It is the only sector that can perhaps rival financial services in generating personal wealth. However, the two have a fundamental difference. Whereas technology companies usually add real economic value to society, financial services do much less so. Many of the transactions that made lots of money for those executing them do not create much value for the wider community. They are purely driven by greed. While greed itself is not useless in that to a good extent it drives the capitalistic system, the problem is that it knows no bounds. Regulations are needed but as we shall see, they cannot be effective. The only other means to check greed is through ethics or religion, but human history has amply shown their utter ineffectiveness.

At least in one respect, financial services are similar to technology. Just as the former can hardly be controlled, so is the latter, especially in the biotechnology area. It raises troubling moral issues which have never been faced by mankind before; it directly calls into question what is the human race. We can try to regulate it and must do so, but I worry that it will not be effective. For certain of these technologies to fall into evil hands is like having the latter control nuclear bombs and worse. Both are distinctly possible.

Technology has also greatly exacerbated the danger of many financial services. Machines, i.e. computers, even super computers, have enabled money or capital to churn much faster. It is like lightning striking from one end of the sky to the other and can destroy everything in its way. During the Asian Financial Crisis of the late 1990's, we saw how smaller economies can be utterly devastated by the size and velocity of fund flow. This can happen at no fault of the economies involved. Hong Kong was a perfect example. If not for the boldness with which then Chief Executive Mr. C.H. Tung acted to counter the capital attack, our economy would have been all but destroyed.

Ironically, after the Global Financial Crisis of 2007-2008, which as I explained was caused partly by having too much capital in the economy, the solution devised by central banks was to issue more money. While meeting an immediate need, it also further exacerbates the original problem. It may set the stage for the next big financial crisis from which we may not be so lucky to escape unscathed. All the QE1 (Quantitative Easing), QE2, etc. by the U.S., Europe, and Japan create the conditions for future problems. In this regard, although China was not that affected by the Asian Financial Crisis of the 1990's and the Global Financial Crisis a decade later, it nonetheless is equally guilty of printing too much money.

Accompanying the rise of capital is the rise of investment banking which makes money with money. When I first started to do business some four decades ago, the word "banker" was a venerable term reserved for those in commercial banking. Investment bankers were considered to be a different breed who were not that respected, rather like a real estate developer. In fact many would not consider investment bankers as bankers. Those were the days when investment or merchant banking firms were run as partnerships where individual partners had unlimited personal liabilities for whatever happened to the firm. Consequently, the players had to be very cautious for fear of losing all they had.

Eventually investment bankers, who are invariably very smart, figured out that if their partnership goes public as a corporation with limited liability, their own unlimited personal liabilities will go away. That they successfully did. With personal wealth no longer at risk, they could cast off all constraints and expand their companies through leverage to unimaginable sizes. After all, capital was abundant and should not be left idle. That was how the Global Financial Crisis was developed.

In the process, these newly minted "bankers" amass for themselves huge fortunes. Armed with such wealth, they can now rightfully call themselves "bankers." The table has turned and every commercial banker now wants to be an investment banker, a profession which they not that long ago disdained.

Another group of "losers" was the earlier and more honorable old-fashioned investment bankers, like the late Mr. John Whitehead mentioned above. I suspect that his personal net worth was not up to one tenth that of his successors at his previous firm. The unrestrained greed displayed by some of John's former colleagues has brought certain disgrace on their heads. Sadly, the profession has become rather disrespectful in the eyes of the general public.

No one can deny that investment banking fills a necessary role in the economy. In fact, as global money supply increased, these operators in the capital market became extraordinarily significant. The sheer size of the pool of money as well as the velocity of capital flow have made them extremely powerful. Recognizing this new reality, several U.S. presidents have appointed investment bankers as Secretary of the Treasury. From 1981, six out of 12 men who filled that post came from this industry. The supremacy of the capital market over the traditional banking system, and of investment bankers over commercial bankers has thus been sealed. The beast is now the king.

In China, for the past 20 years or so, many of the brightest young people aspired to become an investment banker. That included sons and daughters of powerful officials or wealthy business families. Recognizing that such bankers personally add little value to society, I always discourage my younger friends from pursuing such a career. Most of them are not learning anything solid. (To a good extent, the value of the profession lies in the global distribution network for financial instruments they create, many of which are problematic.) Seldom was I heeded, for the money earned in investment banking was far more than in almost any other job.

One of my few successes was with my son Adriel, who is now a capable executive of this Company. After university and further Chinese language training in Beijing, followed by a short stint at a not-for-profit organization in New York City, he joined a top accounting firm in Shanghai and later, a global commercial bank. Both industries offer solid business training for young aspiring executives. When he first entered the business world, an entrance level job at investment banks was paid four to five times more than that at an accounting firm.

In order to create or justify the super high salaries and especially bonuses, such bankers have to create bigger and bigger transactions. Given the size and the speed of capital flow, they can wreak havoc on the entire economy. Today, financial assets with leveraging are much bigger in size than the real economy. This was exactly how the 2007 Global Financial Crisis developed.

The remedy that was almost universally advocated or adopted was more regulation. I certainly see the need for it. Yet I am at the same time suspicious of its efficacy if deployed on its own. There is a timing gap and perhaps also an intelligence gap. First, until there is a financial product, there is nothing to regulate. Unless all such instruments must be pre-approved by the regulatory body which may not work, there will be a lagging effect. Many such instruments may seem benign on the surface, and only when tested by time and usage will their true colors — including unintended consequences — be known. By that time, considerable damage might already have been caused.

Moreover, investment banking often offers the highest paid jobs and recruits the best graduates from top universities. Once hired, competition and work pressure will further sharpen their minds. On the other hand, government positions or those of quasi-governmental agencies cannot pay as much. Consequently, with few exceptions, second-class brains become regulators. It is not difficult to predict the outcome when a Premier League team plays a B-league team. This is not to mention that once the two sides have to engage in a legal dispute, the party with more money will have an edge by engaging the best lawyers.

If so, regulation alone cannot do the job. What then shall we do? We must first discover the philosophical roots of the problem. I have long considered that the fundamental problem is the ever-increasing demand for more freedom in society, especially in Western societies. Almost no one in the West, and very few in the East, dare say publicly that society already has too much freedom. It is against the prevailing ethos of the time in which we live. Anyone who ventures to utter the unutterable, i.e. that we already have sufficient or even too much freedom, will be publicly condemned. On this issue, it seems that no one has the freedom to freely think and speak. Social norms dictate what one can think or speak. One must be totally politically correct. Few have the moral courage to speak up even when something commonly accepted to be true is actually patently false.

This is modern slavery of the mind. The East, like China, certainly does not have the monopoly for political correctness. In fact, it is much more subtle in the West yet no less powerful. The difference is that many people in the East usually know that they are wrong when they go along with what is commonly accepted, perhaps perpetrated by the government. In the West, most people do not know that they are wrong. In fact, the government, the academics and the media often reinforces each other to obscure the truth. The truth is no longer important; political correctness is.

When this philosophy is applied to the already powerful capital market, it takes on the form of demanding ever-increasing market efficiency. More efficiency is better, more freedom is better, bigger is better, and faster is better — and as much as possible, operating in the absence of restraints. The employment of super computers in trading transactions has helped to push the market in that "correct" direction. It seems that no one is asking the question — or dare to ask the question — of whether we are being too free, too efficient, too big, or too fast. A computer cannot ask that question. Only human beings with a sound mind, an objective and unbiased attitude, and plenty of common sense laced with moral fortitude can. If the collective humankind cannot ask the sensible questions, then our financial market will sooner or later get us into big trouble. I do fear that the next crisis may be more severe than the last one of 2007, from which it may take decades to recover.

So far not only have I not discovered enough sensible voices in the West, in fact, self-righteous America has been condemning some Asian nations like China for neither improving nor reforming according to the Western standard. What hubris, especially given their own Global Financial Crisis of 2007.

Fortunately China seems to have a certain awareness of the danger mentioned above. As a result, it only selectively accepts certain advice from the West. For example, many pressure China to open its capital account and allow the RMB to be freely convertible, but China has so far not agreed. In my opinion, there is a good possibility that the next time when the West is in yet another systemic financial crisis, China with its vast economy and ready liquidity will be looked upon as a beacon of stability. They may even help bail out the West. Perhaps that will be what it takes to convince the Anglo-Saxon world, especially the U.S. that it does not have the monopoly of a reasonably good system. Every system has its own strengths and weaknesses.

That said, China is subjected to its own unique dangers. Just as the Western market may fail, so can China's policy pronouncements. I am quite sure that the former will happen again and from which recovery may be more difficult than before. Equally it is far easier for me to believe that some Chinese policy mishaps will sooner or later hit us. My hope is that top leaders in Beijing will be able to catch their own mistakes before it is too late and immediately take corrective actions. In recent years, China has several times done exactly that, and the system usually has the flexibility to reverse course. The political will as well as operational means are so far present.

Having said all that, as a businessman, I together with my colleagues must decide whether to continue to invest in mainland China. So far our decision is a very definite yes. Of less concern to us than policy blunders is the cyclical fluctuation of the market such as the winter of the past six years. We knew that spring would sooner or later return, and it did.

On a more immediate business front, I truly believe that in time, in fact quite soon, all of our properties will perform satisfactorily. This includes the two projects that are being built: Kunming Spring City 66 and Wuhan Heartland 66. Frankly there are few reasons to believe otherwise.

What is less clear is our ability to acquire good pieces of land at reasonable prices. While this is in no way detrimental to our near-to-medium-term, for we have many square meters of land on the Mainland yet to be developed, our long-term future could be capped. Doubtless we will buy land some time but the uncertainty of timing and outcome will be a test to our nerves. While sticking to our time-proven strategy, we may also explore new ideas.

A more immediate challenge to the Company is internal, that of management succession. To be sure, much effort has been expended in recent years to ensure that almost every middle and senior management position now has someone who can step in on short notice if necessary. After all, illnesses and accidents are beyond one's control. All the more reason we should have a succession plan for the top few posts.

On this score, your Board is closely monitoring the situation. In fact, our Nomination and Remuneration Committee (NRC) comprising only independent non-executive directors is directly participating in the process of candidate identification and appointment. In the past, I reported on how our NRC solely determines the compensation packages for all executive directors, including their salaries, bonuses, and stock options. This of course includes the chairman who is also an executive director. It should be pointed out that the Committee's nominating function is no less onerous. In fact, the impact of its actions in this regard is more far-reaching than remuneration determination.

A case in point took place about eight years ago when our then Managing Director Mr. Nelson Yuen, now an independent non-executive director of the Company, retired. He gave us plenty of notice. Subsequently, he and I worked closely together with the NRC — and that of our majority shareholder given the joint appointment of the Managing Director in both Companies — to identify a successor. In fact, all non-executive directors were involved in the process, with some in an intimate way.

While the best process cannot guarantee the best outcome, it does enhance the chance of success. Eventually the then Board of Directors unanimously appointed Mr. Philip Chen who was once the CEO of a highly successful airline.

As longtime shareholders and observers of Hang Lung know, it was Nelson who helped put the Company on the strategic path that we now enjoy. We built two fabulous commercial complexes in Shanghai that are the envy of many. We deftly prepared our balance sheet for the 1997 market downturn, and then bought superb pieces of land in Hong Kong at the market trough and made great profits. Then in the six years before his retirement in mid-2010, we acquired on the Mainland several excellent plots of land at very reasonable prices. We have yet to complete construction on some of them.

Nelson chose to retire right before the completion of the first of these Mainland projects outside of Shanghai. Those were the days when we were frantically constructing many complexes all at once, and the development of our management team was falling seriously behind. At that juncture, Philip joined us. His managerial and operational expertise was exactly what we needed at that time. Since his appointment, the Company has been completely transformed to suit the needs of today.

Suffice to say here that the Board is always monitoring the situation to ensure the smooth and uninterrupted operation of the Company.

A related issue is board composition. This is especially crucial for us. Unlike many other Hong Kong listed companies, our Board is a truly well-functioning body. It does what a board of directors is supposed to do. This is why for many years running, we have been picked by reputable industry bodies as having the best corporate governance.

Besides succession planning and remuneration of top management, the Board is actively involved in all key decisions of the Company, such as risk management, capital structure, cost control, and organizational structure. With this in mind, we have gathered a group of individuals with diverse backgrounds that are germane to our business. We have some of the city's top economists, accountants, lawyers, engineers, bankers, investors, as well as civic leaders. They are knowledgeable about Hong Kong, mainland China and indeed all major economies of the world. There are still a few industries and professions from which we would like to draw. I will report again as we score successes in identifying and appointing new board members.

In time we will need younger blood. Years ago we instituted age and term limits, but this is not enough. The retail business is fast-evolving and the use of technology is nowadays prevalent. It makes sense to have more younger and tech-savvy people on the Board.

A balance between experience and fresh thinking needs to be struck. I believe that certain institutional memory and wisdom derived therefrom are critical to the success of any company, and certainly in our industry. Our assets are long-dated, and the market is highly cyclical often with long amplitude. It takes time to experience a full cycle, which traditionally spans six to eight years. Anyone new to the industry will most likely be short of the necessary exposure. This argues for keeping some of the long-serving members while adding younger people. It takes time for the latter to gain the necessary experience while contributing their expertise.

On dividend, I have explained six months ago to shareholders why the Board was careful not to be overly optimistic. Quite a number of analysts have chosen to neglect my words, and there was nothing we can do about that. While we do listen to investors in general, we are not led solely by them. Sometimes their interests and that of the Company do not align. Management is not prepared to make recommendations to the Board to assuage certain short-term desires of some investors. In this case, the Board sides with management.

Since I have written much regarding corporate governance, let me make one final point here. Long-term followers of this Company know that Hang Lung is among the most transparent of companies. This is why I write letters to shareholders twice a year, the length of which is far greater than most, if not all, of my peers. While the quality of a piece is not judged exclusively by its length, few will dispute the fact that we are among the most open and forthright in our industry. Not only do we not intentionally or unintentionally mislead our readers — a practice not uncommon elsewhere — I always do my best to put forward the key thinking, and not just actions, of management whenever I write, or in public meetings with analysts or the press. If some people choose not to believe my words, that is their prerogative, but no one can say that I have not told them what is on our minds on key issues.

In penning this letter to shareholders once every six months, I try each time to cover one or two topics of significance to our business. This is beyond the usual reporting on performance and analyses of our business, the industry, and the economy. From time to time, I may also comment on national or regional developments that may affect us. The same is true for my piece to the shareholders of our major shareholder HLGL.

For example, in this writing I touch upon succession planning, board composition, and of less significance, architecture. Six months ago in the letter to HLGL shareholders, I dissected the Belt and Road Initiative. In recent years, I have at different times covered topics such as e-commerce (HLPL Annual 2016), models for boards of directors (HLGL Annual 2016), enterprise risk management (HLPL Annual 2015), sustainability issues (HLPL Annual 2015 and 2006-2007), real estate "genetics" (HLPL Annual 2014), corporate culture (HLPL Annual 2014), Enterprise Resource Planning System (ERP) (HLGL Annual 2013), and many more.

Obviously, I cannot expect all my readers to know what I have expounded in the past, and I cannot touch upon every topic in each piece of writing. As such, I either periodically repeat certain critical issues or refer my readers to a previous letter either of this Company or that of HLGL.

For this reason, we have published a collection of my 25 years HLPL Chairman's letters in summary form. It is entitled "25 Years In Retrospect" and can be downloaded at our website at http://www.hanglung.com/en-US/media-center/publications/25-retrospect.

Back to our immediate prospects: I do not expect the rental income of 2018 to be substantially different from that of the past year. A mild increase is the most likely outcome. The positive effects of the recovering retail market should soon come through thereafter. Total profit will again depend on how much of the Blue Pool Road project we sell.

In Hong Kong, the major renovation of The Peak Galleria should finish by the end of 2019. We now own about 85% of Amoycan Industrial Centre. Plans for redeveloping the site are being drafted.

The second office tower of Wuxi Center 66 should be completed in mid-2019. Plans for the second site just south of the mall and offices are being drawn up. Trial pile and soil testing are proceeding.

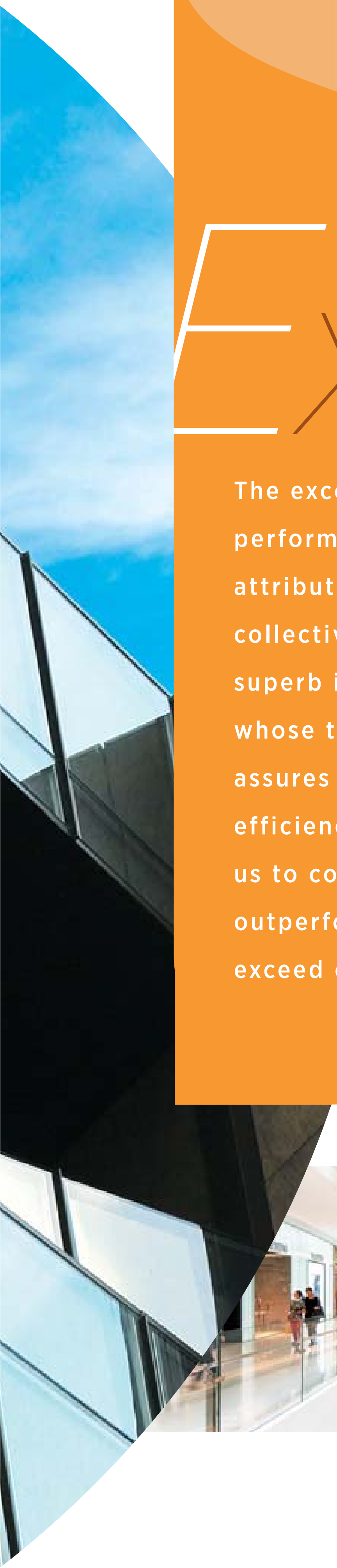
Ongoing construction works are all progressing as planned with minor delays. The mall of Kunming Spring City 66 is expected to open in mid-2019. So far slightly over 30% of the space is committed or close to being so. Response from retailers is quite encouraging. The office tower is expecting to open three to six months after the shopping center.

Wuhan Heartland 66 should see the opening of both the mall and the office tower towards the end of 2019 or the beginning of 2020.

The completion of the refurbishment of Shanghai Grand Gateway 66 should take place in mid-2019. I expect an upgrading of tenants which will include more top fashion brands.

All of the above projects will significantly enlarge and improve our investment portfolio on the Mainland. Starting from 2020 and continuing for many years thereafter, rental revenue should climb, followed by the rise in profit. Another growth phase of the Company should soon be upon us.

Ronnie C. Chan
Chairman
Hong Kong, January 30, 2018



EXCELLENCE

The excellence in performance is attributable to the collective effort of superb individuals, whose teamwork assures maximum efficiency and enables us to constantly outperform and exceed our goals.

Review of Operations

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

Business Overview

In 2017, both Hong Kong and the Mainland witnessed signs of recovery in retail sales, despite pressure on rents from leases that were entered into during the peak period and a negative reversion as a result of trade diversification necessitated by the shrinkage in fashion retail.

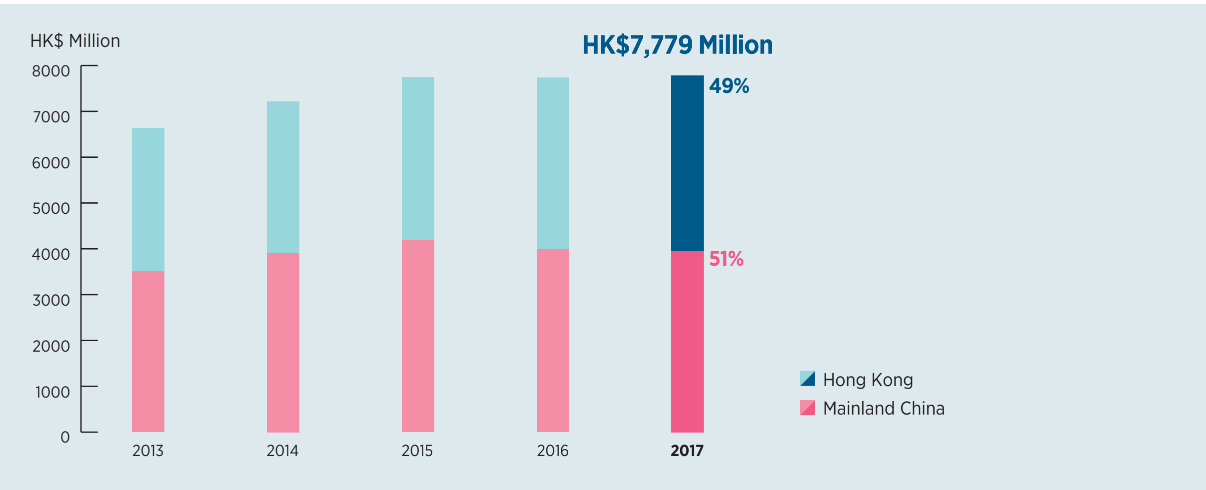
In mainland China, gross domestic product (GDP) growth for 2017 was 6.9%. The market has started to recover particularly in the luxury sector in tier-one cities. The recovery, which usually begins in tier-one cities, will spill over to other cities. Some brands are beginning to expand again. The government's continued stimulation of private consumption in general has given rise to diversification and expansion in "new retail" sectors such as online to offline (O2O) concept stores, children's learning, wellness, fitness, entertainment and food & beverage. In addition, the growing number of younger consumers buying high-end items for their own use rather than for gifting has fueled the demand for lifestyle luxury and fashion-forward street wear brands.

In Hong Kong, GDP growth for 2017 was 3.7%. Retail sales have shown positive growth over nine months since March 2017 after a continuous drop for 24 months. Mainland tourists are returning although their places of origin and spending patterns are noticeably different from previously, leading to less demand for trades such as jewelry & watches and high-end fashion.

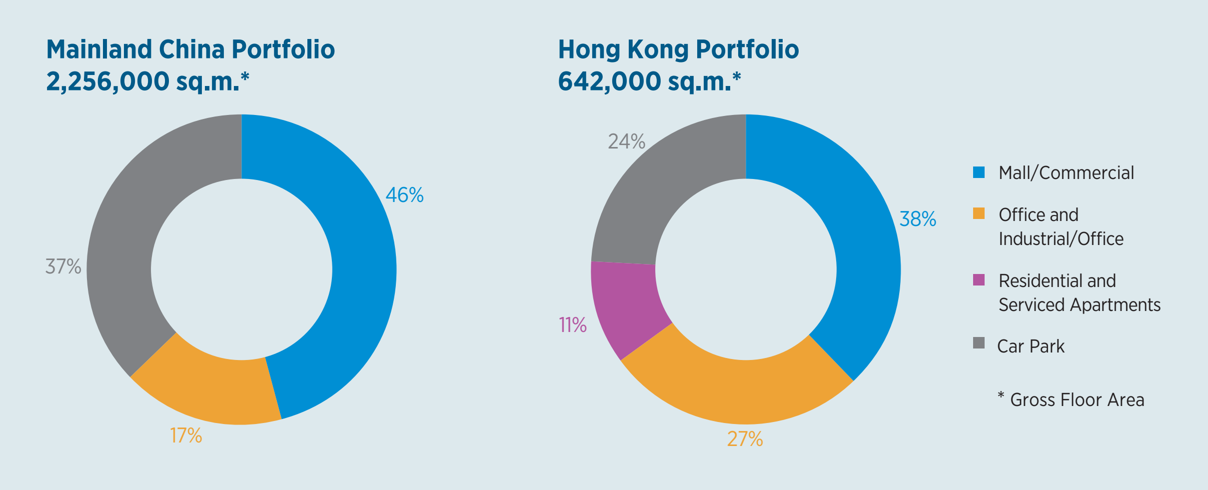
Our retail properties in Hong Kong held their ground while other segments were growing moderately. Despite a rental interruption due to asset enhancement programs for Kingston in Causeway Bay and The Peak Galleria, rental income of our Hong Kong leasing portfolio recorded a mild growth year-on-year.

For the financial year ended December 31, 2017, total revenue of our leasing properties increased 1% to HK$7,779 million. Revenue of the Mainland properties stayed flat in RMB terms and that of the Hong Kong leasing portfolio grew 2% year-on-year.

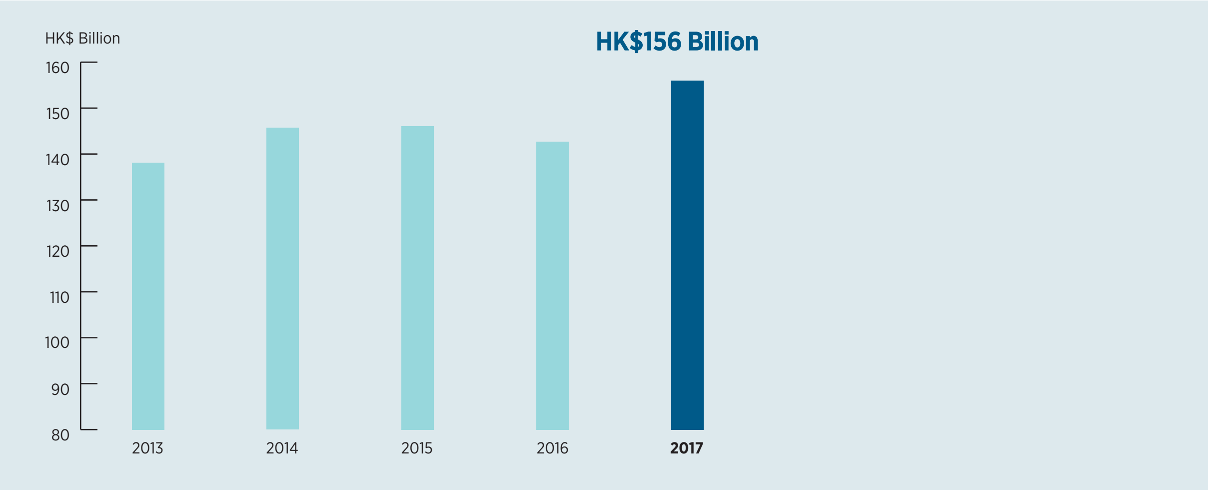
Property Leasing Revenue



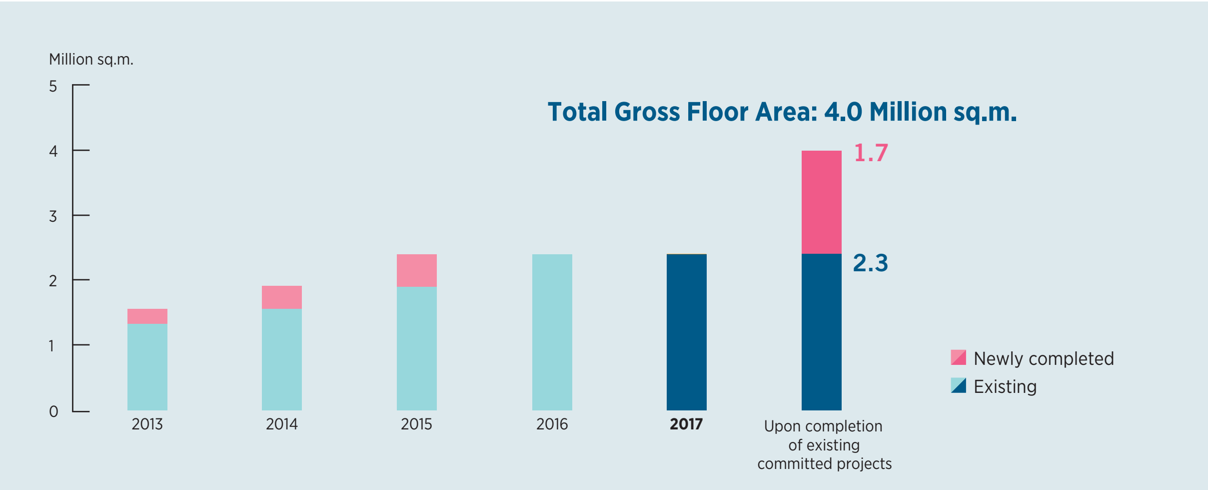
Area of Investment Properties



Valuation of Investment Properties and Investment Properties under Development as at December 31



Area of Investment Properties in Mainland China



Review of Operations

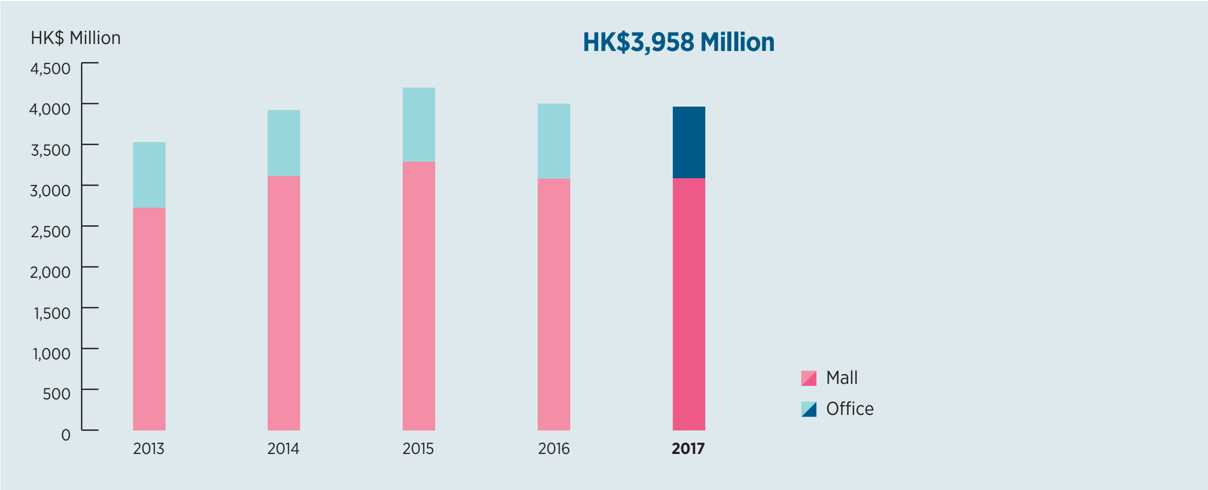
Mainland China Property Leasing

The performance of the Hang Lung portfolio of properties in mainland China is characterized by a gentle return of confidence in the domestic economic market particularly in the second half of 2017.

All of Hang Lung's malls and offices have positioned themselves with sufficient foresight to continue to see satisfactory growth in times of uncertainty. During the economic slowdown, we carried out large-scale asset enhancement initiatives for our two landmark properties in Shanghai. Plaza 66 has already reaped the benefits with unprecedented growth, while Grand Gateway 66, is poised to follow the same trajectory with the completion of its upgrading works in 2019. Outside Shanghai, our results reflect the best possible outcomes given the prevailing situation. Overall, the shopping mall performance has been satisfactory.

The performance of our offices is on an upward course. We have benefitted from the confidence of domestic corporations and also maintained our multinational complexion with tenant portfolios comprising reputable and thriving organizations. As the economy gains further momentum, our growth potential will be fully realized.

Revenue of Mainland China Portfolio



Segmental Analysis of Mainland China Investment Properties

For the year ended December 31

	Rental Revenue (HK$ Million)		Occupancy Rate (at year-end)(%)	
	2017	2016	**2017**	2016
Mall	**3,085**	3,079	**84%**	83%
Office	**873**	916	**85%**	76%
Total	**3,958**	3,995	**85%**	80%

Mainland China Property Leasing

Brief on Properties

Plaza 66, Shanghai

Plaza 66 is located on 1266 Nanjing Xi Lu in Jing'an District, the most prominent commercial area in Shanghai. Positioned as a "Home to Luxury", the five-story shopping mall features over 100 prestigious luxury brands from around the world, including Louis Vuitton, Hermès, Chanel, Dior, Prada, Bottega Veneta, Cartier and more, with the continuous introduction of youthful fashion labels like Golden Goose Deluxe Brand and Chiara Ferragni, as well as fine dining options.

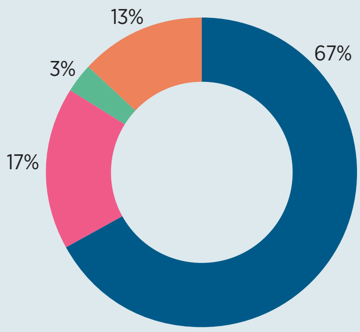
The two prestigious Grade-A Office Towers 1 and 2, which soar to 66 and 48 floors respectively, attract prominent local and multinational corporations, information technology companies and fashion labels as tenants.

Grand Gateway 66, Shanghai

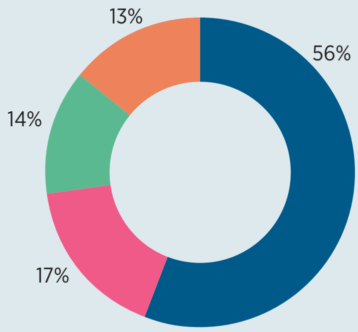
Located atop the metro station of Xujiahui, Grand Gateway 66 showcases over 260 popular brands. The complex's shopping mall has become home to a range of top labels like Bottega Veneta, Chaumet, Gucci, Jimmy Choo, Loewe, Tiffany & Co.

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

Commercial Segment Distribution (by Leased Floor Area) — Plaza 66, Shanghai



Commercial Segment Distribution (by Leased Floor Area) — Grand Gateway 66, Shanghai



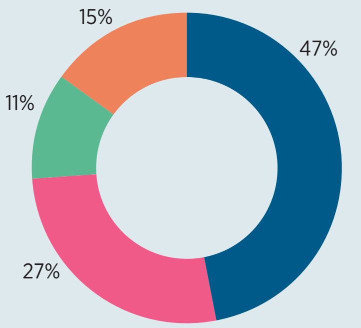
Key Statistics

		Plaza 66, Shanghai	Grand Gateway 66, Shanghai
Gross floor area (sq.m.)	Commercial	53,700	120,188
	Office	159,555	67,200 (owned by Hang Lung Group Limited)
	Residential and Serviced Apartments	N/A	83,200 (owned by Hang Lung Group Limited)
Number of car parking spaces		804	835
Occupancy rate (at year-end)	Commercial	96%	77%
	Office	89%	90% (owned by Hang Lung Group Limited)
	Residential and Serviced Apartments	N/A	86% (owned by Hang Lung Group Limited)
Number of shopping mall tenants		124	266

Palace 66, Shenyang

Situated on the renowned Zhongjie Lu in Shenhe District — the financial hub of Shenyang — Palace 66 comprises about 200 local and international brands that span across fashion, leisure & entertainment, beauty & cosmetics, food & beverage and more.

Commercial Segment Distribution (by Leased Floor Area)



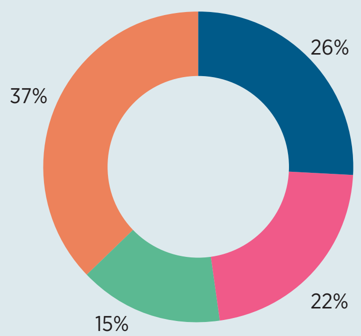
109,307
N/A
N/A
864
90%
N/A
N/A
210

Forum 66, Shenyang

Forum 66 complex is located on 1 Qingnian Da Jie, the "Golden Corridor" at the core of the commercial district in Shenyang. In addition to globally acclaimed labels like Chanel, Chloé, Christian Louboutin, Tory Burch and Valentino, its shopping mall also houses cosmetics specialty store, boutique supermarket, upscale cinema, global cuisine options and lifestyle services.

Towering 88 stories above the ground, the complex's office tower has numerous multinational corporation tenants under its belt, while a 5-star Conrad hotel slated to open in 2019 will occupy the top 19 floors with 315 deluxe rooms and suites, as well as a wide range of international banquet, business and leisure facilities.

Commercial Segment Distribution (by Leased Floor Area)



101,960
144,677 (excluded hotel)
N/A
2,139
83%
80% (low- and mid-zones)
N/A
119

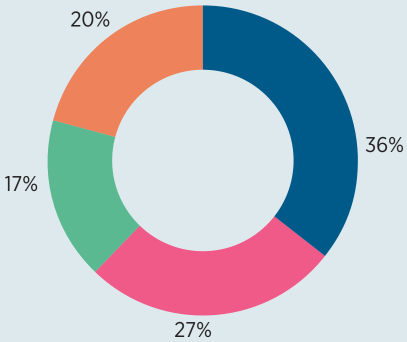
Mainland China Property Leasing

Brief on Properties

Parc 66, Jinan

Located on Quancheng Lu, the "Golden Street" at the core of Jinan, Parc 66 is a stone's throw away from numerous tourist attractions. Catering to the diverse shopping, dining, entertainment and leisure needs of customers, the shopping mall offers over 300 stores of various genres, including global luxury, chic fashion, children's education and amusement, upscale cinema, boutique supermarket and international gourmet.

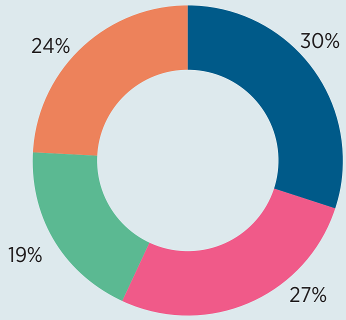
Commercial Segment Distribution (by Leased Floor Area)



Center 66, Wuxi

Center 66 is located at the intersection of Zhongshan Lu and Renmin Zhong Lu in Liangxi District, the most prosperous commercial district in downtown Wuxi. With indoor pathways to metro lines 1 and 2, its shopping mall features over 270 quality retail stores with a line-up of global luxury labels, while its 52-story office tower is the prime choice for multinational enterprises to set up branches in the city, with UBS, Shiseido, Huawei, AIA Group and China Minsheng Bank as some of its most esteemed tenants.

Commercial Segment Distribution (by Leased Floor Area)



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

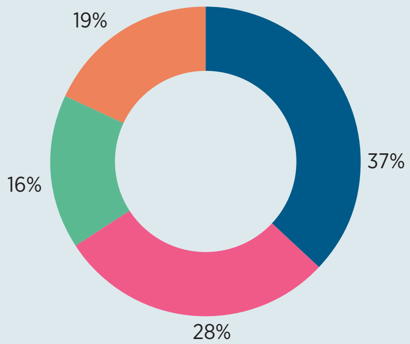
Key Statistics

		Parc 66, Jinan	Center 66, Wuxi
Gross floor area (sq.m.)	Commercial	171,074	118,066
	Office	N/A	85,438
	Residential and Serviced Apartments	N/A	N/A
Number of car parking spaces		789	1,292
Occupancy rate (at year-end)	Commercial	94%	87%
	Office	N/A	87%
	Residential and Serviced Apartments	N/A	N/A
Number of shopping mall tenants		327	186

Riverside 66, Tianjin

In close proximity to Haihe Central Business District, Riverside 66 is sited at the crossroads of Heping Lu and Binjiang Dao, the two "golden" commercial streets of Tianjin. In addition to over 300 international and local brands that offer a full-fledged modern consumer experience of shopping, dining, leisure and entertainment, the project introduces the Sun-Bright International Cineplex, Tianjin's very first concept cinema that offers a total of 576 seats in a number of themed houses, with the largest house boasting a capacity of 127.

Commercial Segment Distribution (by Leased Floor Area)

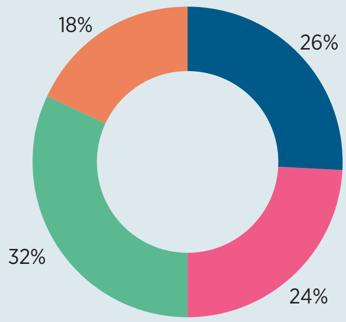


152,831
N/A
N/A
800
89%
N/A
N/A
265

Olympia 66, Dalian

Olympia 66 is situated on 66 Wusi Lu in Xigang District, the commercial hub of Dalian. The project features prestigious local and international labels of fashion and accessories, jewelry and watches, beauty and digital products, as well as a stunning array of global culinary delights, advanced international entertainment and leisure facilities, a dynamic family zone and an innovative range of sports sites. The mall also has an ice-skating rink and Dalian's first Palace cinema, providing 10 houses and 1,600 seats.

Commercial Segment Distribution (by Leased Floor Area)



221,900
N/A
N/A
1,214
71%
N/A
N/A
280

Mainland China Property Leasing

Plaza 66, Shanghai

Shopping Mall

The post-renovation performance of the shopping mall in the year under review was very positive and according to plan. Double digit growth was recorded in total sales, footfall, and rental revenue. Much of the mall's asset enhancement initiative was completed in January. This included the reopening of the fully connected B1 level. The debut of new brands, the arrival of expanded flagship stores, the upgraded food & beverage outlets and the opening of the new VIC Lounge (The Lounge) in September set the stage for the mall's unprecedented progress on all fronts. Apart from enjoying the patronage of high spending customers, the Lounge will also generate revenue when it is commissioned by brands for their product launches and member-exclusive events.

Defining moments and events throughout the year put the spotlight on the mall, drawing visitors from the city and far beyond, which led up to the dazzling "Home to Luxury" party held in September. At the heart of the mall's success is a renewed emphasis on service excellence and an enhanced experience for both customers and tenants. In terms of tenant mix, the mall continues to attract the world's finest brands in the luxury category, in parallel with their own strategy of appealing to a new generation of customers. To support the expansion of brands and nurture new arrivals, pop-up stores were a welcome and refreshing feature during the year, which saw entries such as Moynat, Alaia and Chaumet. The lifestyle and beauty mix grew in quality and variety with the addition of premium hair salon Trevor Sorbie and barber shop Truefitt & Hill. New restaurants such as Exquisite Bocuse, Takagi and Taste Paradise were immediately well received. Among the elite brands, Dior took the opportunity to upgrade and expand its range and depth at the mall.

Office Tower

Leasing demand for office space was primarily driven by the expansion of large multinational and leading domestic corporations. Despite the current need for companies to decentralize

their back office operations, and the tightening of controls over the private equity industry, the limited supply of prime office space in the Jing'an District where Plaza 66 is located is the main reason why it remains one of the most prestigious locations for companies headquartered in Shanghai. During the year under review, one of the largest users, KPMG, completed its expansion and relocation from Office Tower 1 to Office Tower 2. A major new tenant, Everbright Securities, one of the top financial institutions in China, took up six floors, over 10,000 square meters, at the end of 2017. The move will reinforce the trade mix of the two Office Towers with a focus on financial institutions, luxury retailers, and professional services, contributing to a stable stream of rental income in the long run.

With the completion of major upgrading works to the lobby, elevators, common facilities and open spaces of Office Tower 1 during the year, followed by similar work for Office Tower 2 in early 2018, Plaza 66 is well positioned as a modern and timeless corporate destination.

Grand Gateway 66, Shanghai

Shopping Mall

With the closure of 23% of Grand Gateway 66's leasable floor area for renovation of the annex building and part of the main mall in end 2017, the mall has experienced lower traffic and sales turnover during the year. Overall rental income fell by 9% owing to the renovation. However, if the annex building is taken out of the equation, rental income for the rest of the mall saw a rise of 7% with steady sales figures.

Two anchor tenants, a supermarket and a cinema, will complete their upgrading work and will reopen in the second quarter of 2018. The annex building, filled with more lifestyle concepts and contemporary fashion brands, is targeted to open in the final quarter of 2018.

Looking ahead, the growth in demand for luxury and high-end brands is likely to continue as the millennial generation enters the market. Grand Gateway 66 is well positioned for this development with its current enhancement exercise.

Mainland China Property Leasing

Palace 66, Shenyang

The oversupply of commercial properties in Shenyang continued during the year under review and is likely to persist in the coming year with new malls coming on stream. Despite this situation, Palace 66 achieved outstanding results with a rental revenue increase of 9%, total sales at the mall inching up 8%, and footfall up 4%. A degree of stability was achieved in the tenant mix and retention by the fourth quarter after some earlier volatility. The year saw the entry of GODIVA, INXX, NIKE KICKS LOUNGE, Superdry and Thomas Sabo. The rebalancing of the tenant portfolio is ongoing to meet the challenging market conditions, with reputable brands acquired to fit the evolving needs of customers.

Forum 66, Shenyang

Shopping Mall

Against a backdrop of an underperforming economy in Shenyang as a whole, Forum 66 has focused on an alleviation program, improving occupancy rates and expanding tenant mix to form a stable foundation for future growth. Major tenants on Level 1, including Chanel and Cartier, were successfully retained with new leases. The revamp of Level 3 of the mall had a significant impact on occupancy rates as well as the footfall of affluent young families.

Looking ahead, increases in Office Tower tenants will lift demand for food & beverage outlets. The retail tenant mix will continue to be fine-tuned with the addition of more domestic and foreign designer brands and fuller utilization of public areas for pop-up stores and other events.

Office Tower

With most of the lettable space in the low to mid zones already leased out, the performance of the Office Tower was satisfactory. The rental revenue increase was attributable to existing tenants' expansion and promising new acquisitions. Multinational corporations and high profile domestic tenants accounted for 62% of the leasable area in the low and mid zones. Among the distinguished names relocating to Forum 66 were ABB, Deloitte, PwC, Schaeffler, Dentons, and Siemens, contributing to an optimized tenant mix that reinforced the Office Tower's position as Shenyang's premium business address.

The six floors in the high zone of the Office Tower will be available for leasing by mid-2018. By that time, the already well-established portfolio of tenants coupled with the location advantage and the high quality of our hardware and services will provide a good foundation for leasing activities and the recruitment of more high value tenants.

Mainland China Property Leasing

Parc 66, Jinan

Having positioned itself as the first choice in Jinan for well-respected brands, Parc 66 posted moderate growth in the year under review. The mall has been able to consolidate its position and enhance its tenant mix to cater more effectively to the needs of customers. Among new food & beverage outlets were Häagen-Dazs, Nanjing Impressions, and Xibei You Mian Cun. The range of retail options was further diversified with the addition of brands such as adidas Running, Columbia, D Harry, Mi, Meitu and Pure Cotton. The mall was able to fill all vacancies on Level 1 East by creating an exclusive contemporary luxury zone that is unique in Jinan, energized with brands such as COS, Furla, Maje, Sandro, Theory, Y-3, Thomas Sabo, and Tranoi. On top of the additions, existing tenants expressed confidence in the prospects of the market by expanding or upgrading their presence at Parc 66, all taking advantage of the mall's position as a magnet for the young and fashionable.

In 2018, the mall will continue with its refinement of tenant mix. Lease expiries in 2018 provide an opportunity to re-evaluate the breadth of the mall's offerings, with the potential to transition from commonplace food & beverage outlets to more exclusive and contemporary brands.

Center 66, Wuxi

Shopping Mall

The Wuxi market has produced mixed influences on the retail business with an increase in property prices providing an impetus for higher spending power, particularly for luxury goods, and yet a lowering of average retail rentals due to an oversupply of shop space in retail malls and department stores. However, due to its unique positioning, Center 66 has been able to take advantage of the positive factors. The shopping mall demonstrated moderate growth with occupancy rates reaching 87% at the end of 2017 and a 16% increase in retail sales. Supporting the growth has been the introduction of more tenant variety including more food & beverage choices and the addition of new concept and experience stores, a 2,200 square meters premium fitness center Impulse, sports fashion brands such as ASICS, adidas, Nike, and PUMA. The effect has been a shopping ambience that has improved customer experience and increased not only footfall but the time spent by patrons at the mall.

With steady improvement expected in local economic conditions over the coming year, Center 66 is positioned to reap the benefits of the prudent management of its tenant portfolio and facilities. The confirmed addition of luxury grade cinema Premiere to the retail podium of Office Tower 2 will further boost growth with massively increased traffic, coupled with continued efforts to further refine tenant mix.

Office Tower

With the leading position as the landmark in Wuxi, the Office Tower is well received by the multinational corporations and renowned domestic enterprises. Demand from professional services and insurance and financial sectors is the main driving force contributing to the growth in occupancy and optimization of tenant mix. Over 40% of tenants are multinational corporations and various quality names such as AIA, China Minsheng Bank, China Guangfa Bank, Lenovo, KONE, and Grant Thornton were recruited in 2017. This provides a solid foundation for further growth in the coming year.

Review of Operations

Mainland China Property Leasing

Riverside 66, Tianjin

The situation at Riverside 66 is influenced by the proximity of two competitor complexes. However, a diversified portfolio of tenants has enabled Riverside 66 to attract customers who are looking for more than daily necessities. In order to refine the tenant mix to cater to younger customers, 43 tenants were replaced and 60 new brands were introduced. The soft opening of the movie theater in December has provided an additional draw for traffic.

Riverside 66 will maintain its focus on striking the right balance in its trade mix by acquiring more leisure and lifestyle tenants, children's education centers, electronics flagships and contemporary luxury labels. As a first step in enhancing customer experience, in the second quarter of 2018, the car parking system at Riverside 66 will undergo a substantial upgrade with the installation of a new paperless system which will allow cashless payments and GPS location of parked vehicles.

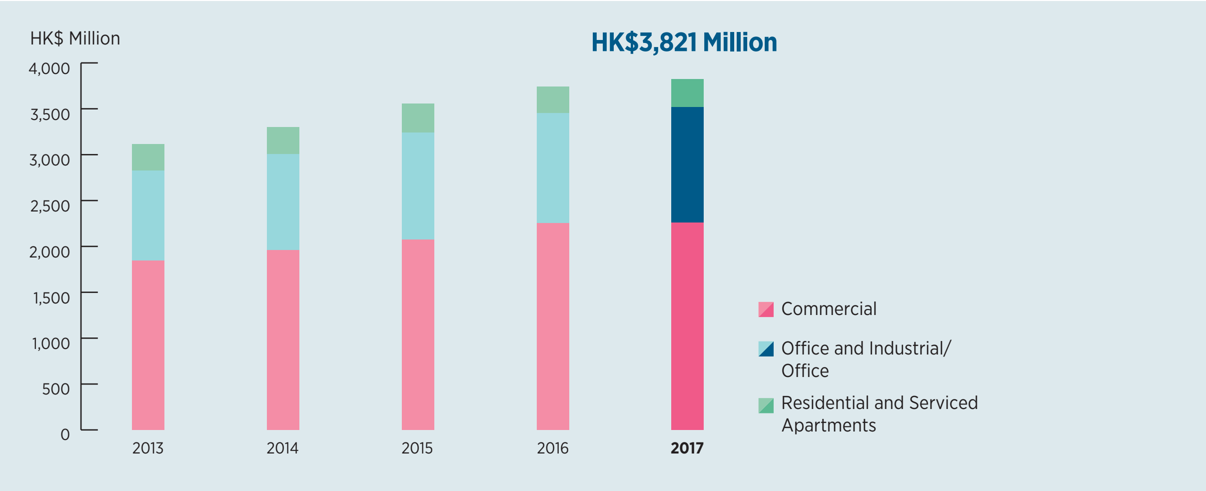
Olympia 66, Dalian

The prevailing economic climate in the city has cast the shadow of negative growth on all areas of business. In the commercial leasing sector, the sluggish economy has dented the confidence of major international brands in establishing a retail presence in the city. This situation has limited Olympia 66's growth momentum. During the year, tenant mix at the mall was still undergoing adjustment with the addition of new lifestyle and food & beverage offerings, which had a beneficial impact on business. In the short term, brand migration opportunities remain a possibility and attention will be focused on reviewing existing food & beverage tenants. The mall will strengthen its collaboration with existing tenants and seek third party collaboration for events and promotions. These steps will further raise the profile of the mall and consolidate its position in the market so that as the economy in the province improves, Olympia 66 will be in a preferential position to attract international brands.

Hong Kong Property Leasing

Hong Kong's economy saw an expansion of 3.9% year-on-year in real terms during the first three quarters of 2017 after a growth of 2% in the preceding year. Retail sales stood at 0.9% higher year-on-year in the same period on the back of an 8.1% decline for the whole of 2016. It is against this backdrop, and with rising tourist arrivals, that Hang Lung's Hong Kong portfolio is able to report a stable performance in the year under review. Retail sales growth across the whole portfolio of shopping malls boosted footfall and lifted revenues. Likewise, our offices recorded consistent occupancy rates and moderate growth in rental revenue, with year-on-year performance rising by 5%.

Revenue of Hong Kong Portfolio



Geographical Analysis of Hong Kong Investment Properties

At December 31

	Total Gross Floor Area* ('000 sq.m.) 2017	2016
Hong Kong Island		
Central	**51**	51
Causeway Bay and Wan Chai	**92**	92
Kornhill and Quarry Bay	**134**	134
The Peak and Mid-Levels	**46**	46
Hong Kong South	**12**	12
Kowloon		
Mongkok	**137**	140
Tsim Sha Tsui and West Kowloon	**82**	86
Ngau Tau Kok	**79**	76
Kwai Chung	**9**	9
Total	**642**	646

Segmental Analysis of Hong Kong Investment Properties

For the year ended December 31

	Rental Revenue (HK$ Million)		Occupancy Rate (at year-end)(%)	
	2017	2016	**2017**	2016
Commercial	**2,261**	2,255	**96%**	96%
Office and Industrial/Office	**1,257**	1,199	**95%**	91%
Residential and Serviced Apartments	**303**	288	**80%**	76%
Total	**3,821**	3,742	**93%**	91%

* Including gross floor area of car parks

Hong Kong Property Leasing

Brief on Major Properties

Fashion Walk
Causeway Bay

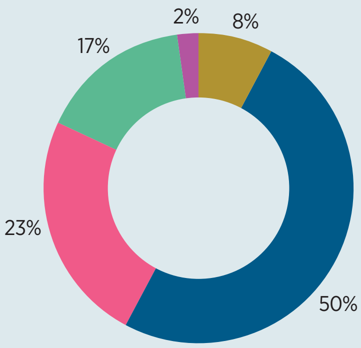
Fashion Walk is the distinctive shopping destination across three main areas, namely Paterson, Kingston and Food Street, offering the latest trends in fashion, gastronomy and lifestyle in a magnificent setting. It houses numerous innovative concept stores and flagships of celebrated international fashion labels, including the first adidas flagship (Causeway Bay) with an instore fitness center, H&M's largest global flagship in town, the first overseas outpost of Japanese stylish brand STUDIOUS, the first Hong Kong outlet of French fashion label AMI, as well as the first Asian shop of Fjällräven. More chic labels like OFF-WHITE, MSGM, MASTERMIND WORLD and Y's are also available, while a stellar array of popular restaurants can be found on Food Street.

Hang Lung Centre
Causeway Bay

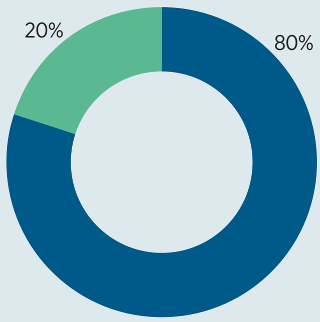
Offering a wide range of travel, fashion wholesale and medical services, Hang Lung Centre is a retail and commercial complex enviably situated at the heart of Causeway Bay. It welcomed H&M's first and the largest global flagship in Asia in 2015, while the Travel Zone is now optimized for customers to obtain travel information and purchase related products in an even more pleasant environment.

- Fashion and Accessories
- Food and Beverage
- Leisure and Entertainment (including Lifestyle)
- Bank
- Department Store
- Others

Commercial Segment Distribution (by Leased Floor Area) — Fashion Walk



Commercial Segment Distribution (by Leased Floor Area) — Hang Lung Centre



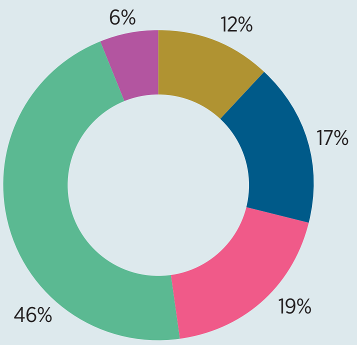
Key Statistics

		Fashion Walk	Hang Lung Centre
Gross floor area (sq.m.)	Commercial	31,072	8,777
	Office	N/A	22,131
	Residential and Serviced Apartments	7,935	N/A
Number of car parking spaces		N/A	126
Occupancy rate (at year-end)	Commercial	94%	100%
	Office	N/A	91%
	Residential and Serviced Apartments	76%	N/A
Number of shopping mall tenants		93	3

The Peak Galleria
The Peak

The Peak Galleria, a shopping and dining complex atop Hong Kong's iconic Victoria Peak, is a major Hong Kong tourist landmark. The Peak Galleria is dedicated to promoting Hong Kong's unique culture and organizing a wide range of activities, such as The Art of Chocolate, The Peak Adventure 5D Theatre and Hong Kong Trams Station. The Green Terrace on the top floor is an observation deck with free admission for visitors to enjoy the panoramic view of Pok Fu Lam Reservoir. It is now undergoing an asset enhancement program in phases to enhance the ambience and shopping experience for an even more charming appeal.

Commercial Segment Distribution (by Leased Floor Area)

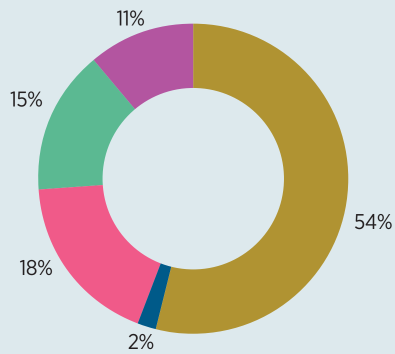


12,446
N/A
N/A
493
40%
N/A
N/A
21

Kornhill Plaza
Quarry Bay

Conveniently located in the east of Hong Kong Island atop the MTR Tai Koo Station, Kornhill Plaza is a commercial complex with a shopping mall, serviced apartments and an office tower. The mall houses AEON STYLE department store. The serviced apartments provide superior management and services, and an office tower, together with Kornhill Learnscape, which offers leisure-learning facilities for youngsters.

Commercial Segment Distribution (by Leased Floor Area)



53,080
10,577
35,275
1,069
100%
95%
71%
113

Hong Kong Property Leasing

Brief on Major Properties

Standard Chartered Bank Building
Central

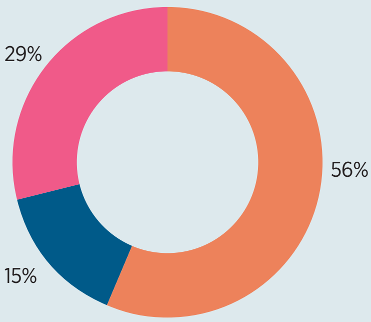
The Standard Chartered Bank Building is a Grade-A office tower in the commercial district of Central. In addition to the headquarters of Hang Lung Properties and the very first digital branch of Standard Chartered Bank Hong Kong, prestigious fashion label Escada and high-end Chinese restaurant Mott 32 are also among its tenants.

Grand Plaza
Mongkok

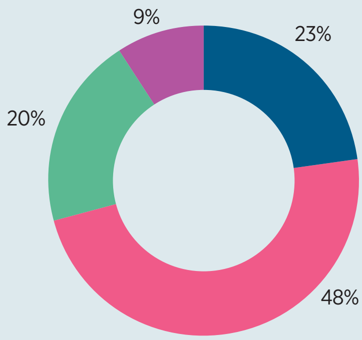
Enviably located right next to the MTR Mongkok Station on Nathan Road, Grand Plaza houses two office towers and a commercial podium. It is home to a stellar line-up of international watch and jewelry brands, concept stores as well as fashion and lifestyle labels. The dedicated Dining Floors feature 20-plus gourmet dining venues where international cuisine is served. The Grand Plaza Office Tower One showcases the region's most prominent healthcare centers. It has further been subtly zoned into Beauty and Travel floors, providing visitors a one-stop leisure and lifestyle experience.

- Fashion and Accessories
- Food and Beverage
- Leisure and Entertainment (including Lifestyle)
- Bank
- Department Store
- Others

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



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



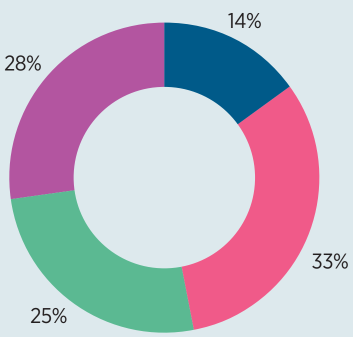
Key Statistics

		Standard Chartered Bank Building	Grand Plaza
Gross floor area (sq.m.)	Commercial	4,814	20,905
	Office	23,730	31,251
	Residential and Serviced Apartments	N/A	N/A
Number of car parking spaces		16	40
Occupancy rate (at year-end)	Commercial	100%	100%
	Office	100%	94%
	Residential and Serviced Apartments	N/A	N/A
Number of shopping mall tenants		3	26

Amoy Plaza
Ngau Tau Kok

Conveniently located near the MTR Kowloon Bay Station, Amoy Plaza is an integrated mall in Kowloon East, comprising stores offering trendy fashions, beauty products and electronic gadgets. Together with more than 40 restaurants serving local and international cuisines, the mall offers a full selection of lifestyle experiences for nearby office workers and residents of Amoy Gardens.

Commercial Segment Distribution (by Leased Floor Area)

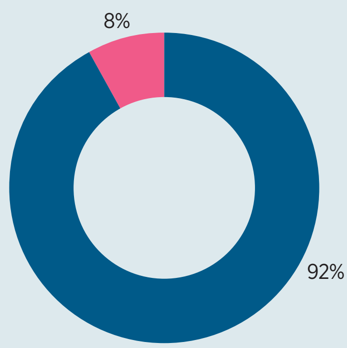


49,006
N/A
N/A
620
99%
N/A
N/A
258

Gala Place/Park-In Commercial Centre
Mongkok

Gala Place houses the largest single-story Starbucks in Hong Kong, as well as the triple-story H&M full-concept flagship store, the largest H&M store in Kowloon. Park-In Commercial Centre also houses a potpourri of diversified services and products including outdoor gear, chic fashion, skincare and cosmetics, lifestyle products, audio and digital gadgets.

Commercial Segment Distribution (by Leased Floor Area)



7,454
30,205
N/A
478
100%
94%
N/A
2

Hong Kong Property Leasing

Fashion Walk

Although 2017 saw Hong Kong retail sales turn to a path of recovery in many sub-sectors, there was lingering caution in retail sentiment, which continued to make the leasing environment challenging. Fashion Walk was able to leverage its position in the market to make exciting new brand acquisitions throughout the year. They included M.A.C., MONO MONO, MASTERMIND WORLD, PUMA, and STUDIOUS. Fashion Walk also made the most of exclusive promotions and pop-up stores to surprise and delight patrons.

Being a crucial part of Fashion Walk, Hang Lung Centre is widely known as a successful hub in the travel, fashion wholesale and medical sectors. The property continued to yield stable rental improvement despite increasing cost sensitivity. A series of asset enhancement initiatives including the upgrade of the office lobby and the elevator modernization program were completed on time.

Fashion Walk's three-year transformation project concluded at the end of 2017 with the successful launch of 9 Kingston Street. A unique 100,000 square feet retail space facing Victoria Park and home to around 16 special new concept stores offer an eclectic mix of sports fashion, lifestyle and food & beverage outlets.

Central Portfolio

Steady rental growth was delivered by our Central portfolio of commercial and office properties reflecting both positive economic sentiment and the prudent positioning of our retail premises. At Printing House, the opening of the internationally renowned WOLFGANG'S STEAKHOUSE has complemented our offering of unique retail and fine dining establishments. Growth in the office leasing segment was promising with solid demand. Vacancy levels remained tight and our positioning is such that our properties, particularly on Duddell Street, continue to be highly sought after by reputable professional service firms.

The Peak Galleria

With the commencement of renovation works in March, The Peak Galleria has implemented a business continuation program to maximize revenue opportunities. New pop-up attractions have proved popular with visitors, including The Peak Adventure 5D Theatre and The Art of Chocolate which made their Hong Kong debuts. Seasonal food & beverage pop-ups also helped to diversify choices during the renovation period with Bread, Espresso & and Good BBQ making a return visit to the mall. Pre-leasing progress has been good and with the reopening of Phase 1 beginning end of 2018, The Peak Galleria is poised for growth with an upgraded hardware and tenant mix that will confirm its position as a tourist shopping and entertainment landmark.

Hong Kong Property Leasing

Kornhill Plaza

A year of consistent growth in line with expectations was seen, the mall was fully let in end 2017 and retail sales growth of 11% year-on-year. The focus in the previous year on upgrading the tenant mix bore fruit with new food & beverage outlets and new offerings in beauty and healthcare consumer goods driving growth. The year under review saw the arrival of 10 new brands and the significant upgrade of an anchor tenant. April marked the reopening of Grand Kornhill Cinema after a full facelift, introducing advanced MX4D technology and a kids' theater, both of which being the first in Hong Kong.

Mongkok Portfolio

Shopping Malls

The broader market has recorded growth in tourist numbers but tourist spending has not yet returned to previous levels. In districts such as Mongkok this necessitated a shift in focus among retailers from tourist to local consumption. Inevitably there was some consolidation of retail chains, with a reduced number of branches within the district. The shopping malls in our Mongkok portfolio remained well-positioned to make the most of changing market dynamics. Although there were negative reversions upon the expiry of leases among jewelry and watch traders, rental rates above the market level were achieved in the transition to promising retail brands, with the addition at Hollywood Plaza of Shu Uemura, Kiehl's, Toast Box, and Watson's. At Grand Plaza, the space vacated by California Fitness was turned into an opportunity for significant rental growth with the acquisition of Decathlon's first Hong Kong flagship store and Goji Studios.

Office Towers

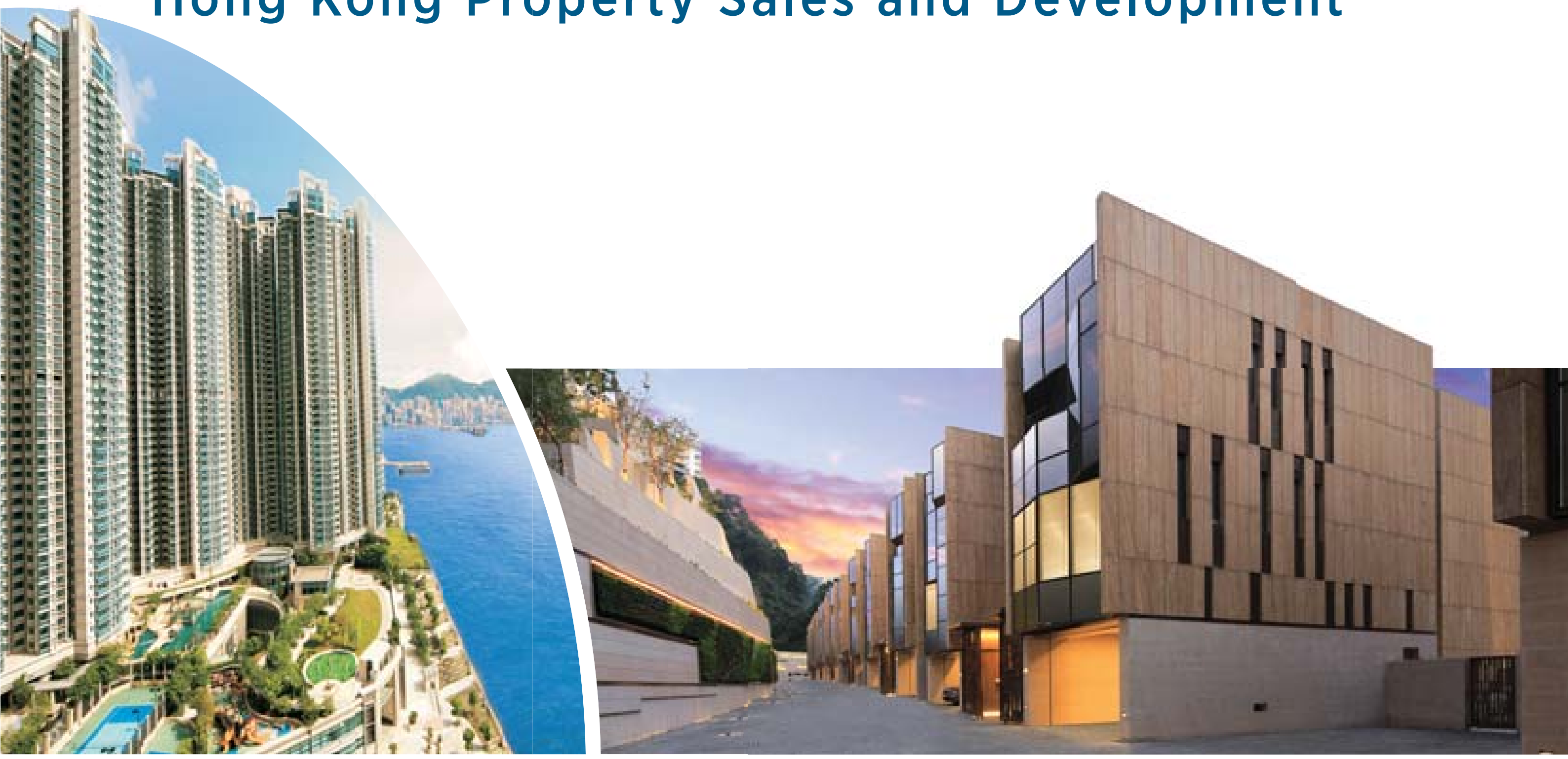
Occupancy at the popular medical floors of Grand Plaza continued to grow consistently. Tenants of various trades at Hollywood Plaza and Park-In Commercial Centre, continued to be buoyant with occupancy rates remaining above 94% in end 2017. However, growth in rental yields from this sector moderated due to new office supply coming online within the district and the relocation of some office tenants from Kowloon Central to Kowloon East and Kowloon West, where Grade-A intelligent office space is ample. The steady rental income at Park-In Commercial Centre and Hollywood Plaza was in contrast to rising vacancy rates along Nathan Road, and was largely achieved by strengthening the tenant mix and introducing more variety with popular brands and new concepts.

At Park-In Commercial Centre, upgrading works are scheduled for 2018 with a realignment of the building's name to Gala Place in the second quarter. At Hollywood Plaza, the refurbishment of the lift lobby to present a fresh and contemporary look to our daily visitors is also scheduled for 2018.

Amoy Plaza

In a challenging year, Amoy Plaza posted moderate growth in 2017 supported by local consumption from the Kowloon Bay business district and residential estates. The mall introduced more affordable food & beverage options to cater to families with young children and teenagers. The trade mix was also refreshed with the addition of an entertainment anchor tenant, Wonderland Superstore, along with the acquisition of new and distinctive retail and lifestyle brands such as Miniso, Bodhi and Chi Chuk Hong, generating extra footfall and boosting sales turnover and rental income. With strong competition in the vicinity, we will continue to enhance the mall's offering and strengthen market differentiation to increase appeal.

Hong Kong Property Sales and Development



The Company reports a rewarding year following a program of sales campaigns which strategically timed the release of assets to maximize profits. The Hong Kong property market was buoyant and unfazed by cooling measures, with strong demand sending price levels to new historical highs. The launch of Tower 2 of The Long Beach in 2016 captured much of the immediate market demand at the time. The decision to launch Tower 1 units in smaller batches throughout 2017 allowed us to achieve unit rates consistently on the high side of the market and to tap demand as it rose in waves. This was achieved in the face of direct competition from new developments along the Tung Chung and West Rail Lines, with our strategy successfully capitalizing on market windows as they emerged and sustaining the momentum of sales at optimal prices.

Monitoring the market for the most opportune timing, the Company also launched the residential car parks and the remaining special and duplex units of this development in sync with the market movement to achieve the best possible returns. During the course of the year, the last unit of The HarbourSide was sold, and we took advantage of the opportunity to consolidate our portfolio and release some of our non-core stocks including commercial units and car parking spaces at The Aquamarine and Carmel-on-the-Hill. The commercial accommodation and car parking spaces at Carmel-on-the-Hill were successfully sold through public tender in October. Meanwhile, at 23-39 Blue Pool Road the year's single sale as the market reached a peak in August demonstrated our longstanding strategy of selling at only a price indicative of the premium development's lasting asset value. It also represented our confidence that the Hong Kong luxury property market will continue on its track of steady growth.

Looking ahead to 2018, we anticipate a period of general buoyancy, but remain prepared for uncertainties arising from domestic and external factors. We are confident that the influx of capital from mainland China will continue to bolster the residential market in Hong Kong, penetrating developments beyond the traditional, high-end sectors.

Outlook

After several years of excess supply and macro policy changes in mainland China, the market has started to recover particularly in the luxury sector in tier-one cities. Our world-class facilities are well positioned to benefit from the recovery. We have strengthened our management and streamlined the operations to meet the needs of the expanding business. A solid foundation has been laid down for a sustainable rental growth through assets and tenant/trade upgrades.

Our focus for 2018 is to drive retail sales and rental growth in Hong Kong and Shanghai, while raising the level of occupancy and tenant quality in cities outside Shanghai. There are also plans to further improve cost efficiency as it is vital to improve rental margins.

The malls are now social places for entertainment, services and food & beverage. We will continue to watch over this consumer trend and add experiential tenants such as cinemas and online to offline (O2O) concept stores, where appropriate, in order to generate footfall and retail sales. We have also invested in new technologies such as mobile applications, mobile payment and smart parking on top of excellent customer service delivery.

Backed by our financial strength, asset enhancement programs will continue in both Hong Kong and Shanghai. Projects under development in mainland China will continue to proceed as planned.

Mainland China Property Development

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

Summary of New Projects in Mainland China

	CENTER 66	FORUM 66	SPRING CITY 66	HEARTLAND 66
City	Wuxi	Shenyang	Kunming	Wuhan
City status	Major City	Provincial Capital	Provincial Capital	Provincial Capital
Province	Jiangsu	Liaoning	Yunnan	Hubei
Usage	Shopping Mall, Office, Hotel, Serviced Apartments	Shopping Mall, Office, Hotel, Serviced Apartments	Shopping Mall, Office, Serviced Apartments	Shopping Mall, Office, Serviced Apartments
Total gross floor area ('000 sq.m.)	371	800	432	460
Year of Completion	Shopping Mall: 2013 Office Tower 1: 2014 Remaining portion: From 2019	Shopping Mall: 2012 Office Tower: 2015 Remaining portions: In phases from 2019	In phases from 2019	In phases from 2019

Center 66, Wuxi

Phase 1 — Office Tower 2

Site precautionary works and steel platform were completed in June along with the structural alteration of the podium/basement. Meanwhile, construction of the Office Tower was underway. The phased completion of construction at the podium and the soft opening of the movie theatre complex are targeted for the fourth quarter of 2018, when the construction of the main structure of Office Tower 2 will also be completed.

Phase 2

The land was taken over in May and the land permit obtained in June. The test piles construction commenced in November. The completion of test piling and the submission of the design scheme for government approval were targeted for the first quarter of 2018.

Forum 66, Shenyang

Construction work for renovation of the high zone offices proceeded according to plan and was generally on schedule. The final design for renovation was confirmed in May and work contracts were awarded. The interior fitting works for two of the six floors being renovated were completed in December. Completion of construction at the high zone offices was scheduled for March 2018 while the official move-in date was on schedule for June 2018.

In the hotel ballroom, structural steel work was completed on schedule in September. The design of the hotel's guest rooms was confirmed in July. Work was ongoing throughout the year broadly in line with plans. The hotel project works are scheduled for completion by October 2018, with the two following months allocated for testing and commissioning of systems.

Mainland China Property Development

Spring City 66, Kunming

Construction work at Spring City 66 proceeded as scheduled. As at the end of 2017, the office tower superstructure reached Level 38 out of a total of 61 levels, and the mall superstructure reached Level 2 with half of the electrical mechanical works in the basement completed. The entire complex is expected to be completed in phases from late 2018. Leasing activities are underway and are building in momentum. Upon completion, the mall will house over 300 international and local brands, feature boutiques, restaurants and amenities that encompass all aspects of contemporary urban living.

Heartland 66, Wuhan

Construction work at Heartland 66 has been satisfactory. By November, construction of the basement levels reached up to ground level. Leasing activities for the mall commenced. The target is to position the mall as a city and provincial hub for high-end lifestyle shopping and leisure. There is a need to complement luxury retailers with a tenant mix that includes a broad range of food & beverage outlets plus lifestyle, experience and entertainment options to accommodate the needs and aspirations of our target customers.

Major Properties of the Group

A. Major Properties Under Development

At December 31, 2017

	Location	Site Area (sq.m.)	Main Usage	Total Gross Floor Area (sq.m.)	Stage of Completion	Expected Completion Year
MAINLAND CHINA						
SHENYANG						
Forum 66	Qingnian Da Jie Shenhe District	92,065	M/H/O/S	574,091	Hotel fitting-out	2019 onwards
WUXI						
Center 66 (Phase 1)	Renmin Zhong Lu, Liangxi District	37,324	O	52,261	Superstructure	2019 onwards
Center 66 (Phase 2)	Jiankang Lu, Liangxi District	16,767	M/H/O/S	108,980	Planning	
KUNMING						
Spring City 66	Dongfeng Dong Lu, Panlong District	56,043	M/O/S	432,388	Superstructure	2019 onwards
WUHAN						
Heartland 66	Jinghan Da Dao, Qiaokou District	82,334	M/O/S	460,000	Superstructure	2019 onwards

M: Mall
H: Hotel
O: Office
S: Serviced Apartments
All the above properties are wholly owned by Hang Lung Properties

B. Residential Properties Completed For Sale

At December 31, 2017

	Location	Site Area (sq.m.)	Total Saleable Area (sq.m.)	No. of Residential Unit for Sale	No. of Car Parking Spaces for Sale
HONG KONG					
23-39 Blue Pool Road	23-39 Blue Pool Road, IL 5747	7,850	6,391	15	30
The Long Beach	8 Hoi Fai Road, KIL 11152	20,200	1,190	10	–

All the above properties are wholly owned by Hang Lung Properties.

Major Properties of the Group

C. Major Investment Properties

At December 31, 2017

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

	Location	Lease Expiry	Total Gross Floor Area (sq.m.)# Commercial/ Mall	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
TSIM SHA TSUI AND WEST KOWLOON						
Grand Centre	8 Humphreys Avenue, KIL 7725 & KIL 8026	2038	3,688	7,198	–	–
Hanford Commercial Centre	221B-E Nathan Road, KIL 10619 & KIL 8132	2037	1,444	4,891	–	–
AquaMarine	8 Sham Shing Road, NKIL 6338	2050	22,350	–	–	413
The Long Beach	8 Hoi Fai Road, KIL 11152	2050	20,174	–	–	133
NGAU TAU KOK						
Amoy Plaza	77 Ngau Tau Kok Road, NKIL 53, NKIL 1482, NKIL 2660 & NKIL 3947	2047	49,006	–	–	620
KWAI CHUNG						
Laichikok Bay Garden	Shops 1A1, 1A2, 5A, 6A & 6B, Lai King Hill Road, Lot 3336 of SD 4	2047	3,109	–	–	172
MAINLAND CHINA						
SHANGHAI						
Grand Gateway 66	1 Hong Qiao Lu, Xuhui District	2043	120,188	–	–	835
Plaza 66	1266 Nanjing Xi Lu, Jing'an District	2044	53,700	159,555	–	804
SHENYANG						
Palace 66	128 Zhongjie Lu, Shenhe District	2057	109,307	–	–	864
Forum 66	1 Qingnian Da Jie, Shenhe District	2058	101,960	144,677 (excluded hotel)	–	2,139
JINAN						
Parc 66	188 Quancheng Lu, Lixia District	2059	171,074	–	–	789
WUXI						
Center 66 (Phase 1)	139 Renmin Zhong Lu, Liangxi District	2059	118,066	85,438	–	1,292
TIANJIN						
Riverside 66	166 Xing'an Lu, Heping District	2061	152,831	–	–	800
DALIAN						
Olympia 66	66 Wusi Lu, Xigang District	2050	221,900	–	–	1,214

* With an option to renew for a further term of 75 years
# Gross floor area of mainland China investment properties includes gross floor area above and below ground

FRUITFUL

We have had a fruitful year as all projects across the board have fulfilled targets thanks to flawless execution by our professional teams.


SAMSUNG
Häagen-Dazs
STARBUCKS COFFEE
红旗

Financial Review

Consolidated Results

For the financial year ended December 31, 2017, total revenue of Hang Lung Properties Limited and its subsidiaries (collectively known as "Hang Lung Properties") decreased 14% to HK$11,199 million because fewer residential units were sold this year, thus resulting in lower property sales. Revenue of property leasing increased 1% to HK$7,779 million, or was up 4% when excluding areas closed for asset upgrading. Income from property sale dropped 36% to HK$3,420 million. Total operating profit decreased 11% to HK$7,910 million.

Underlying net profit attributable to shareholders fell 13% to HK$5,530 million. Net profit attributable to shareholders increased 31% to HK$8,124 million, after including a revaluation gain on investment properties. Earnings per share increased similarly to HK$1.81.

Revenue and Operating Profit

	Revenue			Operating Profit		
	2017	2016	Change	**2017**	2016	Change
	HK$ Million	HK$ Million		**HK$ Million**	HK$ Million	
Property Leasing	**7,779**	7,737	1%	**5,672**	5,710	–1%
Mainland China	**3,958**	3,995	–1%	**2,454**	2,514	–2%
Hong Kong	**3,821**	3,742	2%	**3,218**	3,196	1%
Property Sales	**3,420**	5,322	–36%	**2,238**	3,209	–30%
Total	**11,199**	13,059	–14%	**7,910**	8,919	–11%

Dividend

The Board of Directors has recommended a final dividend of HK58 cents per share for 2017 (2016: HK58 cents) to be paid by cash on May 16, 2018, to shareholders whose names appeared on the register of members on May 3, 2018. Together with an interim dividend of HK17 cents per share (2016: HK17 cents), the full year dividends for 2017 amounted to HK75 cents per share (2016: HK75 cents).

Property Leasing

In 2017, both Hong Kong and the Mainland witnessed signs of recovery in retail sales, despite pressure on rents from leases that were entered into during the peak period and a negative reversion as a result of trade diversification necessitated by the shrinkage in fashion retail.

In mainland China, gross domestic product (GDP) growth for 2017 was 6.9%. The market has started to recover particularly in the luxury sector in tier-one cities. The recovery, which usually begins in tier-one cities, will spill over to other cities. Some brands are beginning to expand again. The government's continued stimulation of private consumption in general has given rise to diversification and expansion in "new retail" sectors such as online to offline (O2O) concept stores, children's learning, wellness, fitness, entertainment and food & beverage. In addition, the growing number of younger consumers buying high-end items for their own use rather than for gifting has fueled the demand for lifestyle luxury and fashion-forward street wear brands.

In Hong Kong, GDP growth for 2017 was 3.7%. Retail sales have shown positive growth over nine months since March 2017 after a continuous drop for 24 months. Mainland tourists are returning although their places of origin and spending patterns are noticeably different from previously, leading to less demand for trades such as jewelry & watches and high-end fashion.

Our retail properties in Hong Kong held their ground while other segments were growing moderately. Despite a rental interruption due to asset enhancement programs for Kingston in Causeway Bay and The Peak Galleria, rental income of our Hong Kong leasing portfolio recorded a mild growth year-on-year.

For the financial year ended December 31, 2017, total revenue of our leasing properties increased 1% to HK$7,779 million. Revenue of the Mainland properties stayed flat in RMB terms and that of the Hong Kong leasing portfolio grew 2% year-on-year.

Mainland China

Revenue of the entire mainland China leasing portfolio was flat at RMB3,430 million, but was up 5% when excluding areas closed for renovation. Operating profit dropped 1% to RMB2,130 million. Average margin was 62%.

Our eight malls in mainland China collected 1% more in rents to RMB2,672 million. Both rental income and retail sales at Shanghai Plaza 66 mall showed a strong growth after the completion of the asset enhancement program, which the rental increase could more than cover the rental interruption due to the asset upgrading works at the Shanghai Grand Gateway 66 mall. As a result of a vigilant tenant remix and marketing measures, the performance of our six malls outside of Shanghai improved in terms of retail sales and occupancy. A solid foundation has been laid down for a sustainable rental growth in future.

Income from our four office towers at Shanghai Plaza 66, Shenyang Forum 66 and Wuxi Center 66 decreased 3% to RMB758 million. At Plaza 66, transitional voids were associated with a major tenant relocation between the office towers which was completed in October 2017. The office towers at Forum 66 and Center 66 both collected more in rents with increased occupancy.

Mainland China Property Leasing Portfolio

Name and City of the Property	Revenue 2017 RMB Million	Revenue 2016 RMB Million	Change	Occupancy Rate at Year-end 2017 Mall	Occupancy Rate at Year-end 2017 Office
Shanghai Plaza 66	**1,409**	1,305	8%	96%	89%
Shanghai Grand Gateway 66	**883**	974	–9%	77%#	N/A
Shenyang Palace 66	**155**	142	9%	90%	N/A
Shenyang Forum 66	**213**	230	–7%	83%	80%
Jinan Parc 66	**271**	262	3%	94%	N/A
Wuxi Center 66	**219**	224	–2%	87%	87%
Tianjin Riverside 66	**181**	191	–5%	89%	N/A
Dalian Olympia 66 *	**99**	88	13%	71%	N/A
Total	**3,430**	3,416	–		
Total in HK$ Million equivalent	**3,958**	3,995	–1%		

About 23% of leasable area was temporarily void for major asset upgrading.

* Grand opening on September 9, 2016.

- *Shanghai Plaza 66*

Total revenue of Plaza 66 increased 8% to RMB1,409 million mainly driven by a higher contribution from the mall.

The entire basement of Plaza 66 mall was closed for upgrading in March 2016 and re-opened in phases from January 2017. The basement now houses about 30 brands with most of them making their first presence at the mall. More than 2,000 esteemed guests, including senior executives from international brands, business partners and investors, as well as local and overseas media attended the star-studded party on September 8, 2017, held to celebrate the successful completion of the asset enhancement program for the mall. The Very Important Customer (VIC) Lounge designed by a world-acclaimed interior designer also opened in September 2017. Apart from patronage by high spending customers, the Lounge would also generate revenue through commissioning by brands for their product launches and member-exclusive events. The expansion of Dior into Dior Maison, a 3-story flagship store, and the opening of new Loro Piana and LOEWE stores in 2017 further strengthened the Plaza 66 mall's positioning as the home to luxury. Retail sales at the mall grew strongly by 26% year-on-year.

The performance of Plaza 66 mall in the year under review was strong, with a 22% growth in revenue. Plaza 66 is poised for continued growth after strengthening its position as the premier mall of luxury brands in Shanghai and in mainland China. Occupancy of the mall increased three points to 96% by the end of 2017.

Income of the two office towers at Plaza 66 decreased by 8% due to transitional voids associated with the relocation of a major tenant between the two office towers during the year and the phased re-letting of some recent lease expiries towards year end. Occupancy rate decreased six points to 89% by the end of 2017 but is expected to rebound.

Following the successful execution of the enhancement works for Office Tower One, a similar program for Office Tower Two commenced in the fourth quarter of 2016 and is expected to complete by mid-2018. The remaining enhancement work will have a minimal adverse impact on the revenue of Plaza 66.

- *Shanghai Grand Gateway 66 (Mall only)*

Revenue of Grand Gateway 66 mall decreased 9% to RMB883 million due to the disruptions caused by the asset upgrading program. If excluding the affected areas, rental revenue advanced 7%. Occupancy rate retreated 19 points to 77% because of the renovation. Some of the affected areas will re-open in phases starting from mid-2018 to minimize the adverse impact on income and profit.

Grand Gateway 66 mall commenced its 3-year major upgrading program in January 2017. The whole program, including a new main entrance for the mall, a new subway link to Metro Line 9, and a major layout re-configuration at Level 1 and the basement of the mall, will be carried out in phases until mid-2019. This carefully planned asset enhancement program will strengthen the mall's long-term competitiveness and profitability.

- *Shenyang Palace 66*

Palace 66 mall collected 9% more in rents to RMB155 million. Occupancy rate decreased three points to 90% by the end of 2017 due to some recent lease expiries. With occupancy staying at a high level, renewals and new leasing are being negotiated at higher rental rates. Retails sales also increased by 8% against a year ago because of an improved tenant mix.

- *Shenyang Forum 66*

Total revenue of Forum 66 decreased 7% to RMB213 million.

Forum 66 mall maintained its high-end positioning but was hit by the sluggish luxury goods spending in Shenyang. The mall had to make downward adjustments in rents to optimize tenant mix and occupancy. Correspondingly, rental income of the mall decreased by 25%. Occupancy rate decreased one point to 83% by the end of 2017. During the year, the mall renewed leases with some key high-end tenants, building a good foundation for future rental growth. Retail sales at the mall increased by 1% year-on-year.

Revenue of the office tower grew 24% to RMB102 million due to higher occupancy. Occupancy rate increased 22 points to 80% by the end of 2017. The remaining area available for leasing at year-end was only 6% as the six floors in the high zone of the tower, representing 14% of occupancy, will only be ready for leasing from mid-2018. The top 19 floors of the office tower are being converted into a prestigious Conrad hotel.

- *Jinan Parc 66*

Revenue of Parc 66 mall increased 3% to RMB271 million. Occupancy rose three points to 94% by the end of 2017. More contemporary luxury brands and quality food & beverage tenants were introduced during the year. Benefitting from an enhanced tenant mix and high occupancy, retail sale increased by 12% year-on-year.

- *Wuxi Center 66*

Total rental income of Center 66 slipped 2% to RMB219 million, but was up 1% when excluding 9% of the mall's leasable area which was temporarily closed for the construction of the second office tower.

The performance of Center 66 mall has rebounded. The tenant mix was enhanced during the year with new trades and more food & beverage tenants introduced to enrich the offerings of the mall. Retail sales increased by 16% year-on-year mainly driven by sales growth of various trade categories. Occupancy rate increased seven points to 87% by the end of 2017. The remaining area available for leasing at year-end was only 4% after taking out the 9% temporary void area of the mall for the reason stated above. While revenue of the mall was flat in 2017 on a comparable basis, a solid foundation has been built for growth.

The office tower recorded a rental growth of 4% to RMB77 million. This Grade A tower has established a leading position in Wuxi. More than 50% of the tenants are well known corporations. Occupancy rate increased from 65% to 87% by the end of 2017 compared to a year ago driven by new lettings and tenant expansions.

- *Tianjin Riverside 66*

During the course of reshuffling tenants, income of Riverside 66 mall decreased by 5% year-on-year. The ambience of Level 1 of the mall was enhanced with the arrival of more contemporary luxury brands. Also, more lifestyle and entertainment tenants were introduced to enrich the offerings, including a new cinema with 570 seats in seven houses in December 2017. Occupancy rate was up seven points to 89% by the end of 2017. Retail sales also increased by 8% year-on-year.

- *Dalian Olympia 66*

Olympia 66 mall, which had its grand opening in September 2016, collected 13% more in rents in 2017. Retail sales also showed a consistent upward trend. Occupancy rate increased by five points to 71%.

Hong Kong

Total revenue and operating profit of our Hong Kong leasing portfolio grew 2% and 1% to HK$3,821 million and HK$3,218 million, respectively. Overall rental margin was 84%. When excluding areas closed for asset upgrading, revenue increased 4% year-on-year. The performance was satisfactory after taking into account the years of sustainable growth that raised our rental to a high level.

Rental income of the commercial portfolio was stable as the renovation programs in Causeway Bay and The Peak Galleria caused short-term rental interruption as expected. Our retail portfolio recorded sales growth of 8% on a comparable basis when excluding the affected areas. Both offices and residential posted stable rental growth during the year.

Hong Kong Property Leasing Portfolio

	Revenue 2017 HK$ Million	2016 HK$ Million	Change	Occupancy Rate at Year-end 2017
Commercial	**2,261**	2,255	–	96%
Office and Industrial/Offices	**1,257**	1,199	5%	95%
Residential & Serviced Apartments	**303**	288	5%	80%
Total	**3,821**	3,742	2%	

- *Commercial*

Revenue of the Hong Kong commercial portfolio was flat at HK$2,261 million mainly because of major renovation at Kingston in Causeway Bay and The Peak Galleria since early 2017. Rental income was up 3% when excluding the affected areas. Overall occupancy by the end of 2017 was at 96%.

Rental revenue of the **Causeway Bay portfolio** decreased by 3% due to 23% of leasable area being closed for asset upgrading, but was up 1% on a comparable basis. The final phase of the asset enhancement program of the Causeway Bay retail portfolio, covering Kingston, commenced in early 2017. This 100,000 square feet of rejuvenated retail space was re-opened during the last quarter of 2017. The enhanced areas have become a hub of 16 special concepts that offer an eccentric mix of sports fashion, lifestyle and food & beverage tenants with strong social experience and entertainment elements.

Retail sales of our tenants in Causeway Bay recorded a 7% growth on a comparable basis.

Kornhill Plaza in Hong Kong East collected 9% more in rents because of positive rental reversions and tenant upgrades. Kornhill Plaza was fully let by the end of 2017. The ambience of the mall was enhanced with the refurbished AEON STYLE, the upgraded Grand Kornhill Cinema which launched Hong Kong's first MX4D technology-enabled movie offerings, and more quality food & beverage tenants. Retail sales at the mall increased by 11%.

Revenue of our leasing properties in **Mongkok**, mainly comprising Grand Plaza and Gala Place, was stable year-on-year. The retail spaces were virtually fully leased. The "Where Trends Meet" program was launched to enhance the profile of our malls. The sport element of Grand Plaza is strengthened with the opening of the flagship store of Decathlon, a world-famous French sports brand, and Goji Studios, a unique fitness and wellness center. With the number of tourists from mainland China on an upward trend again, the sales of our jewelry & watches tenants in Mongkok recorded double digit growth. Total retail sales of Mongkok properties increased by 10% year-on-year.

Income of **Amoy Plaza in Kowloon East** rose 4% mainly because the mall benefited from positive rental reversions and tenant upgrade. A major tenant mix reshuffle was undertaken in 2016 to enhance its position as an attractive one-stop shopping, dining, entertainment and lifestyle hub. To promote the sustainability of the community, the mall launched its “Food Waste Recycling Service” program to all its food & beverage tenants and also undertook a variety of environmental protection measures.

The Peak Galleria commenced a 3-year renovation program in March 2017. Upon full completion in 2019, the mall will have a new façade and enhanced internal layout reconfigurations, strengthening its position as a unique iconic destination on the Peak. The Phase 1 renovation, representing closure of 60% of the leasable area, is targeted for completion by mid-2018. It is expected that the renovated area will re-open before the end of 2018. Pre-leasing of the area under renovation was pleasing, with the introduction of new concepts of trade and excitements. While the renovation was in progress, new additions were introduced to maintain the attractiveness of the mall, including two first-in-Hong Kong pop-up entertainments: The Peak Adventure 5D Theatre and The Art of Chocolate.

- *Offices*

The Hong Kong office portfolio recorded a 5% rental growth to HK$1,257 million, attributable to both positive rental reversions and higher occupancy rate. Overall occupancy rate increased four points to 95% by the end of 2017. Our offices in Central and Causeway Bay posted a 7% and 4% rental growth, respectively. Revenue of the Mongkok offices rose 5% year-on-year.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments increased 5% to HK$303 million mainly driven by higher occupancy at Kornhill Apartments.

Property Sales

Taking advantage of the continued strong residential market in Hong Kong, we further sold down our inventory at good profit. Revenue from property sales amounted to HK$3,420 million, down 36% year-on-year because fewer residential units were sold in 2017. The sales comprised 226 units of The Long Beach (2016: 436 units), one semi-detached house at 23-39 Blue Pool Road (2016: two houses) and the last unit (duplex) of The HarbourSide (2016: one duplex unit). Profit from property sales decreased 30% to HK$2,238 million. Overall profit margin realized was 65%.

As at December 31, 2017, the book cost of the residential properties available for sale was HK$1,612 million. The inventory included 15 semi-detached houses at 23-39 Blue Pool Road and 10 residential apartments at The Long Beach.

During the year, we also parted with 257 car parking spaces at The Long Beach. Total gain on disposal of HK$464 million was recorded as part of other income of the statement of profit or loss.

In November 2017, we reached an agreement with a third party to sell our entire interest of the retail arcade and car parking spaces at Carmel-on-the-Hill in Hong Kong. The transaction was completed in January 2018. The profit from sale shall not be recognized until the transaction is completed. Accordingly, the retail arcade was revalued up with reference to the contracted selling price and the resulting gain was recorded as part of the fair value gain of the year. The properties were reclassified as assets held for sale as at December 31, 2017.

Property Revaluation

The total value of our investment properties amounted to HK$134,444 million as of December 31, 2017, which comprised the value of the Hong Kong portfolio and the mainland China portfolio of HK$61,881 million and HK$72,563 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as at December 31, 2017.

An overall revaluation gain of HK$2,599 million was recorded in 2017 (2016: loss of HK$286 million), representing a 2% year-on-year growth. The Hong Kong portfolio recorded a revaluation gain of HK$2,855 million. The value of our properties in mainland China decreased by HK$256 million during the year mainly because of lower valuation at Forum 66 in Shenyang and Olympia 66 in Dalian.

On November 20, 2017, a wholly owned subsidiary of Hang Lung Properties completed the acquisition of the entire interest in four units at Amoycan Industrial Centre (AIC) in Ngau Tau Kok, Kowloon held by a wholly-owned subsidiary of Hang Lung Group Limited at a total consideration of HK$225 million. After the acquisition, our interests in AIC reached 84.85%. This was an important step to prepare for the re-development of AIC. In December 2017, an application for a Land Compulsory Sale for redevelopment for the remaining 15.15% interests in AIC was submitted to the Lands Tribunal. A total revaluation gain of HK$605 million resulted in respect of Hang Lung Properties' own interests in AIC based on the re-development valuation approach.

Property Development and Capital Commitment

The aggregated value of investment properties under development was HK$21,592 million. They comprised mainland China projects in Kunming, Wuhan, and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of malls, office towers, a hotel and serviced apartments.

The construction work for Kunming Spring City 66 is progressing as planned. Total gross floor area of the entire mixed-use development is 432,000 square meters, comprising a world-class mall, a Grade A office tower, serviced apartments and car parking spaces. The mall is expected to be opened in mid-2019. Leasing activities for the mall have commenced and progress is satisfactory.

Wuhan Heartland 66 covers a total gross floor area of 460,000 square meters. This prestigious commercial project will house a 177,000-square-meter mall, a Grade A office tower, serviced apartments and car parking spaces. The project is planned for completion in stages from 2019 onwards. Leasing activities for the mall have commenced.

Financial Review

The conversion of the top 19 floors of the office tower at Shenyang Forum 66 into a Conrad hotel is in progress. This five-star hotel will have 315 keys and is expected to open in 2019. The addition of this five-star hotel will complement our vision of the Forum 66 as the destination of choice for customers seeking a high-end shopping, entertainment, business and hospitality experiences.

The construction work for the second office tower at Wuxi Center 66 is progressing as planned. This 30-story Grade A office tower is being built above the southeastern part of the Center 66 mall. A total gross floor area of 52,000 square meters will be available for leasing when the construction of the new office tower is scheduled for completion in mid-2019. About 9% of the leasable area of Center 66 mall has been vacated while the office tower is under construction. It is planned that the vacated area of the mall will re-open in the fourth quarter of 2018.

In May 2017, we took possession of a piece of land of 16,700 square meters for the Wuxi Phase 2 development. It is planned to build mainly serviced apartments on this site. The master layout plan is being finalized. The testing piling works were started in November 2017.

The projects mentioned above represented the majority of Hang Lung Properties' capital commitments at the reporting date, amounting to HK$36 billion. They will be completed in phases over a number of years. With a solid base of recurrent income and ample financial resources, we are able to meet the funding requirements of those projects and are well positioned to seize new investment opportunities as they arise.

Liquidity and Financial Resources

Hang Lung Properties centrally manages its liquidity and financial resources at the corporate level. The aims are to maintain an appropriate degree of liquidity and ample financial resources to support business growth and capture new investment opportunities. Multiple channels of debt finance have also been established to mitigate financial risks.

- *Liquidity Management*

The cash flow position and funding needs are closely reviewed and monitored to ensure that Hang Lung Properties has a good degree of financial flexibility and liquidity. This is achieved by keeping sufficient cash resources, having adequate undrawn committed banking facilities available, and maintaining the Medium Term Note (MTN) Program for bond issuance if and when needed.

As at December 31, 2017, Hang Lung Properties had total cash and bank balances of HK$22,106 million (December 31, 2016: HK$24,325 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

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

	At December 31, 2017		At December 31, 2016	
	HK$ Million	% of Total	HK$ Million	% of Total
Denominated in:				
HKD	**12,761**	57.7%	2,821	11.6%
RMB	**9,341**	42.3%	21,499	88.4%
USD	**4**	–	5	–
Total cash and bank balances	**22,106**	100%	24,325	100%

As at December 31, 2017, the amount of undrawn committed banking facilities was HK$9,969 million. The available balance of the USD3 billion MTN Program was equivalent to HK$10,645 million.

- *Financing Management*

Hang Lung Properties manages the debt portfolio with a focus on mitigating the re-financing and interest rate risks. These risks are well managed by maintaining an appropriate mix of fixed/floating rate borrowings, a staggered debt repayment profile and a diversified source of funding.

In September 2017, an application was submitted to the National Association of Financial Market Institutional Investors (NAFMII) in mainland China to establish an on-shore RMB10 billion bond issuance platform. This RMB bond issuance platform when approved will enable us to further diversify the source of debt financing in mainland China.

As at December 31, 2017, total borrowings of Hang Lung Properties amounted to HK$24,820 million. The lower debt balance against a year ago was due to prepayments of some bank borrowings. More RMB bank loans were raised, as part of the hedging strategy, for financing the construction projects on the Mainland. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

	At December 31, 2017		At December 31, 2016	
	HK$ Million	% of Total	HK$ Million	% of Total
Floating rate HKD bank loans	**296**	1.2%	4,108	15.2%
Floating rate RMB bank loans	**11,814**	47.6%	10,345	38.2%
Fixed rate bonds	**12,710**	51.2%	12,629	46.6%
Denominated in USD	**7,816**	31.5%	7,756	28.6%
Denominated in HKD	**4,894**	19.7%	4,873	18.0%
Total borrowings	**24,820**	100%	27,082	100%

At the reporting date, the average tenor of the entire loan portfolio was 3.4 years (December 31, 2016: 3.9 years). The maturity profile was well staggered and spread over a period of 7 years. Around 77% of the loans were repayable after 2 years.

	At December 31, 2017		At December 31, 2016	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	**2,112**	8.5%	568	2.1%
After 1 but within 2 years	**3,605**	14.5%	3,106	11.4%
After 2 but within 5 years	**15,981**	64.4%	14,997	55.4%
Over 5 years	**3,122**	12.6%	8,411	31.1%
Total borrowings	**24,820**	100%	27,082	100%

- *Gearing Ratios and Interest Cover*

As at December 31, 2017, Hang Lung Properties had a net debt balance of HK$2,714 million (December 31, 2016: HK$2,757 million). Net debt to equity ratio was 1.9% (December 31, 2016: 2.1%) and debt to equity ratio was 17.4% (December 31, 2016: 20.5%).

For the financial year ended December 31, 2017, the amount of total gross interest expense incurred was HK$1,258 million (2016: HK$1,334 million). The decrease in gross interest expense was mainly due to a lower average bank borrowings balance in Hong Kong. However, the amount of finance costs charged to the statement of profit or loss for 2017 increased HK$91 million to HK$1,202 million because of a smaller amount of interest capitalization.

Interest income for the year was HK$548 million (2016: HK$794 million). The decrease in interest income was mainly due to a lower average balance of RMB deposits which had higher yields.

With lower interest income and a higher amount of finance costs, the amount of net interest expense in 2017, i.e. the excess of finance costs over interest income, increased to HK$654 million.

As part of the foreign exchange risk management strategy, more RMB debts were used to finance development projects in mainland China. Consequently, the average effective cost of borrowings during the year increased to 5.1% (2016: 4.3%).

Interest cover, a key indicator for debt servicing capability, for 2017 was 11 times (2016: 16 times).

- *Foreign Exchange Management*

The activities of Hang Lung Properties are exposed to foreign currency risks which mainly arise from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, it has exposure to USD arising from the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the foreign exchange risk exposure.

(a) RMB Exposure

The RMB exposure of Hang Lung Properties is mainly derived from two respects of the operations. These are, firstly, the currency translation risk arising from the net assets of our Mainland subsidiaries. Secondly, they are the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB.

At December 31, 2017, the amount of net assets on the Mainland amounted to RMB60 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation gain of HK$4,789 million, as RMB appreciated by about 7% against HKD compared to December 31, 2016. By the same token, the RMB3,885 million deposits held in Hong Kong had to be re-translated into HKD as well and they accounted for HK$417 million of the re-translation gain for the financial year of 2017. The total re-translation gain of HK$5,206 million for 2017 (2016: total re-translation loss of HK$5,762 million) was recognized in other comprehensive income/exchange reserve.

RMB bank deposits were held as a natural hedge for meeting funding needs for projects under development in mainland China. We have adopted an enterprise risk management approach to mitigate the currency risks rather than forming a view on which side the currency will move. Regular business reviews are conducted to assess the level of funding needs for the Mainland projects under development, after taking account of various factors such as regulatory constraints, project development timelines and the business environment. Appropriate modifications to the currency hedging program will be conducted in light of the outcome of the periodic reviews.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,816 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to effectively fix the exchange rate between USD and HKD for future interest payments and principal repayments.

The changes in the fair value of both swap contracts did not impact the cash flows and the profit or loss materially as they qualified for cash flow hedge accounting.

- ***Charge of Assets***

Assets of Hang Lung Properties were not charged to any third parties as at December 31, 2017.

- ***Contingent Liabilities***

Hang Lung Properties did not have any material contingent liabilities as at December 31, 2017.

COMMITMENT

We are ever mindful about our unique role and responsibilities as a top-tier commercial property developer in Hong Kong and the Mainland in order to sustain economically, socially and environmentally.


隆築跡

Sustainable Development

"Hang Lung is committed to embedding sustainability throughout its business value chain. In 2017, we continued to uphold the highest possible standard of integrity, constructed and operated properties in a sustainable manner, strived to develop and retain our talents, and maintained our resolution to support community development. We also actively shared our sustainability journey with stakeholders. All these measures demonstrate how *We Do It Right* — contributing to economic prosperity, social development, and environmental conservation while pursuing long-term growth."

To uphold the highest level of transparency, the Company participates in various major investor-led sustainability assessments on an annual basis. In the international arena, we were selected as a member of the Dow Jones Sustainability Asia Pacific Index for the first time upon receiving a comprehensive assessment of the Company's performance in 24 areas of sustainable development. Locally, we were listed as a constituent of the Hang Seng Corporate Sustainability Index in Hong Kong and the Hang Seng (Mainland and HK) Corporate Sustainability Index, and have received an "AA" rating under the assessment framework of the Hang Seng Corporate Sustainability Indices from the Hong Kong Quality Assurance Agency for the eighth consecutive year. These indices recognize listed companies with exemplary achievements in sustainable development. We have also participated in the industry-specific Global Real Estate Sustainability Benchmark (GRESB) Real Estate Assessment since 2016 to benchmark our sustainability performance against other real estate companies globally.

Employer of Choice

Exemplary Workplace Practices

Steadfast in being an employer of choice, we strive to create an exemplary workplace to attract and retain talents. Regarding the basics, we not only provide competitive remuneration and benefits packages, which are regularly benchmarked against our industry peers, but also cultivate a fair and respectful work environment. We observe the local employment laws where we operate by laying down relevant policies in our Code of Conduct. As an equal-opportunity employer, we implement our Equal Employment Opportunities Policy by prohibiting discrimination against employees and job candidates on any grounds, including gender, age, marital status, family status, pregnancy, disability, race, ethnic origin, or religion, and other attributes protected under the law. We also have zero tolerance for unlawful harassment in any categories, including sexual, disability, and racial.

We promote a culture of appreciation by recognizing employees who are taking the lead in delivering exceptional customer service and who serve as role models for their colleagues with the Emerald Award. In 2017, we launched the "Cheer For You" campaign to foster a working environment built on valuing one another, during which we encouraged employees to write thank-you cards to show gratitude for their colleagues' efforts.

We are also dedicated to promoting work-life balance through organizing a wide range of leisure, sports, and wellness activities for our employees. To further this aim, we have implemented various family-friendly initiatives to help our employees achieve a sense of balance between their responsibilities at work and at home, such as providing breastfeeding rooms in our offices and professional counseling services.

As at 31 December 2017, the Company's staff establishment stands at 4,643 employees across our Hong Kong and mainland China operations. Total employee costs for the year were HK$1,427 million.

Sustainable Development

Health and Safety

Our Occupational Health and Safety Policy outlines our responsibility as an employer to provide a safe workplace for our employees. In order to create a culture that prioritizes safety within the Company, we provide general and process-specific safety training for our staff and construction site workers on a regular basis. Designated safety consultants at key projects in mainland China are also invited to conduct site inspections, identify hazards, and recommend ways to improve construction site safety.

In 2017, we recorded an overall accident rate of less than 0.059 accidents per 100,000 man-hours at our six construction sites in mainland China. Despite our continual emphasis on construction site safety management, we are deeply saddened to report a fatal incident involving a contractor's worker at our construction site in Kunming in April 2017. We immediately worked with the contractor to investigate the root causes of the incident and will continue to optimize work processes and promote safety awareness among construction site workers to prevent a reoccurrence of similar events.

In addition to construction site safety, we started to review our occupational safety and health management systems for office and frontline operations in Hong Kong in late 2017, to ensure alignment with the latest international standards. The review exercise is expected to be completed by mid-2018.

Training and Development

We place great emphasis on the professional and career development of our employees. By providing adequate training and development opportunities, we aim to enable employees to thrive in a dynamic business environment, which in turn helps the Company maintain its competitive edge. We provide personalized training for employees based on their needs, identified through the biannual appraisal process. In addition to training programs, we provide sponsorship to employees who apply for professional memberships and pursue external training programs that will enhance their job performance. Total employee training hours in 2017 amounted to 86,469 hours.

Buildings and the Environment

We leverage our position as a leading commercial property developer in Hong Kong and mainland China to set the standard for developing and operating sustainable buildings. Adhering to our long-term business model, Build to Own and Build to Last, we consider all possible environmental and social impacts throughout the lifecycle of our buildings. We have implemented a company-wide Environmental Policy since 2016 to guide our staff, contractors, and suppliers to construct and manage buildings in an environmentally-friendly manner. We also design and construct buildings according to international green building standards. In 2017, our Forum 66 Office Tower received the Leadership in Energy and Environmental Design (LEED) for Core and Shell Development — Gold Level Certification, increasing our total number of LEED Gold Level certifications to nine.

Energy Consumption and Greenhouse Gas Emissions

Recognizing that energy consumption accounts for over 90% of our carbon footprint, we have carried out ongoing building retrofits to optimize the energy efficiency of our existing buildings, including the asset enhancement works at Grand Gateway 66 in Shanghai and The Peak Galleria in Hong Kong, which commenced in January and March 2017, respectively. Besides, we appointed an independent consultant to verify our Type 1 and Type 2 greenhouse gas emissions annually.

Water Conservation

Water scarcity has aroused increasing global concern, including in Hong Kong and mainland China. We have employed a multi-pronged approach to conserve water at our properties, for example, by installing water-efficient fixtures and promoting awareness of water conservation.

Waste Management

With waste management being an aggravating environmental challenge for Hong Kong and major cities in mainland China, we have adopted various approaches to divert waste from landfills, as well as to encourage our stakeholders to join us in waste reduction. For instance, we encourage source separation by providing collection services at our properties for recyclables such as paper, plastics, metal, food waste, and glass bottles. We have also strived to raise the overall waste awareness of our stakeholders by organizing thematic waste reduction campaigns in 2017, such as red packet recycling, book exchanges, and mooncake donation.

For hazardous waste, used fluorescent lights are the major type of hazardous waste generated at our properties. We have appointed licensed service providers to collect and handle used fluorescent lights in order to eliminate the environmental risk from improper disposal.

For construction waste, we require our contractors to practice waste segregation and recycling to achieve project-specific recycling targets.

Sustainable Development

Community and Partnership

The Hang Lung As One Volunteer Team

Improving the livelihood of the communities we operate is an important component of our strategy for sustainable development, and our Hang Lung As One volunteer team plays a central role in helping to achieve this goal. This year, our volunteer activities remained focused on three areas: youth development, environmental protection, and services for the elderly. In 2017, we organized over 100 activities in Hong Kong and mainland China under the theme of "Shaping the Future", with the devotion of over 12,000 volunteer hours.

In Hong Kong, the volunteer team co-organized the Hang Lung Fun Math Tutorial Classes for the third consecutive year with the support of past participants in the Hang Lung Mathematics Awards (HLMA) and students from The Chinese University of Hong Kong. Through the program, volunteers provided free mathematics tutorial classes to underprivileged students and stimulated their interest in mathematics through interactive games. We also launched the Food Waste Education Program in 2017 to raise awareness among primary school students about the need for food waste reduction through a series of activities including seminars, surplus food collection, an experiential tour, a farming experience, and cooking workshops using surplus food.

In mainland China, we organized and participated in a wide range of green activities, such as river cleaning in Jinan and tree planting in Wuxi. In addition, we paid visits to disabled children and the elderly during festivals to share moments of joy and seasonal good wishes with them. Volunteers from Grand Gateway 66 in Shanghai and Olympia 66 in Dalian visited homes for senior citizens and brought snack packs to the elderly during the Chung Yeung Festival, which is also known as Elderly Persons Day in the Mainland. Volunteers from Parc 66 in Jinan presented gifts to hearing and visually impaired students during a visit to celebrate the Mid-Autumn Festival and enjoyed making snowy mooncakes with them.

The Hang Lung Young Architects Program

As one of the major property developers in Hong Kong, Hang Lung is dedicated to fulfilling its corporate social responsibilities across the full spectrum of its influence, with fostering youth development as a major focus. The "Hang Lung Young Architects Program" was launched in 2017 with over 300 students from 29 secondary schools embarking on a journey of learning as young architects over the course of an academic year. The Program is yet another initiative that allows Hang Lung to fully leverage its network, advantages, and talents to serve the community.

Organized in conjunction with leading local cultural enterprise "Walk in Hong Kong", it is hoped that through participation in the series of interactive lectures, workshops, games, and walking tours, students will be able to have a better understanding of the connection between architecture and the community, gain a deeper insight into Hong Kong's architecture and its history, and appreciate the fine details of the environment that surrounds us. Over 50 students or graduates of architecture or related disciplines were also engaged as mentors, providing guidance and support to participating students. We also leveraged our own talent pool to engage our esteemed project management team, joined by renowned architects and academics in Hong Kong to act as Program Advisors, to furnish the Program with their professional opinions and suggestions.

Sustainable Development

Managing our Supply Chain

Pursuing sustainability throughout our value chain requires concerted effort. To ensure our suppliers and contractors comply with our sustainability principles, we set out our expectations in the Supplier Code of Conduct, and conduct assessments periodically to monitor conformity with the Code.

Customer Service and Guest Experience

Feedback from tenants and customers is valuable for continually enhancing our facilities and services. As such, we have standardized our customer engagement program at properties in mainland China in 2017, aiming to assess our service quality objectively and to identify room for enhancement. Looking ahead, we will also standardize the tenant satisfaction survey across our portfolio.

Our tenants are also instrumental in providing an exceptional experience to our guests. In recognition of this, we launched the Hang Lung Retail Service Award at Plaza 66 and Grand Gateway 66 in Shanghai in 2017 to recognize the outstanding services provided by our tenants.

We have put stringent policies and procedures in place to safeguard the health and safety as well as the personal information and privacy of our customers. Relevant guidelines and training are provided to staff to equip them with the necessary knowledge and skills in these areas.

Social Inclusion and Accessibility

We constantly collaborate with like-minded organizations to leverage the synergy in bringing benefits to society.

Being part of the social fabric, we are always devoted to creating an inclusive society and encouraging social participation. For instance, The Peak Galleria sponsored the Halloween Go 2017 event, a charity walk organized by the Hong Kong Network for the Promotion of Inclusive Society (HKNPIS). About 800 citizens joined the event to help raise funds for the HKNPIS's Community-based Support Service for Persons with Acquired Disability.

We apply our efforts to integrate accessibility into our buildings and malls with the aim of making all our malls barrier free. Our efforts have been recognized by the local communities in the vicinity of our projects. Apart from Olympia 66 being named as the "Model for Accessible Business Centers in Dalian" in 2016, the barrier free designs of Palace 66 and Forum 66 in Shenyang, as well as Parc 66 in Jinan have also received official accolades by the local authorities in 2017.

Content Index

This Sustainable Development section gives an overview of our overall performance in 2017 on the key aspects of sustainability. It also serves the purpose of demonstrating our compliance with the "comply or explain" provisions of the Environmental, Social, and Governance Reporting Guide (ESG Guide) contained in Appendix 27 of the Rules of Listing of Securities on The Stock Exchange of Hong Kong Limited. Full details of our sustainability performance will be disclosed in the Sustainability Report 2017.

The content index below indicates the locations of information in this Annual Report corresponding to the requirements of the ESG Guide.

Aspects	General Disclosure and Key Performance Indicators (KPIs)	Location/Explanation
A. ENVIRONMENT		
Aspect A1: Emissions	General Disclosure	Buildings and the Environment
	KPI A1.1 The types of emission	Buildings and the Environment
	KPI A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity	To be disclosed in the Sustainability Report 2017 and our corporate website
	KPI A1.3 Total hazardous waste produced (in tonnes) and where appropriate, intensity	To be disclosed in the Sustainability Report 2017 and our corporate website
	KPI A1.4 Total non-hazardous waste[1] produced (in tonnes) and, where appropriate, intensity	To be disclosed in the Sustainability Report 2017 and our corporate website
	KPI A1.5 Description of measures to mitigate emissions and results achieved	Buildings and the Environment
	KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives, and results achieved	Waste Management
Aspect A2: Use of Resources	General Disclosure	Buildings and the Environment
	KPI A2.1 Direct and/or indirect energy consumption by type in total and intensity	To be disclosed in the Sustainability Report 2017 and our corporate website
	KPI A2.2 Water consumption in total and intensity	To be disclosed in the Sustainability Report 2017 and our corporate website

Aspects	General Disclosure and Key Performance Indicators (KPIs)	Location/Explanation
	KPI A2.3 Description of energy use efficiency initiatives and results achieved	Energy Consumption and Greenhouse Gas Emissions
	KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water Conservation
	KPI A2.5 Total packaging material used for finished products and, if applicable, with reference to per unit produced	This KPI is not applicable to our business.
Aspect A3: The Environment and Natural Resources	General Disclosure	Buildings and the Environment
	KPI A3.1 Description of the significant impacts of activities on the environment and natural resources, and the actions taken to manage them	Buildings and the Environment
B. SOCIAL		
Aspect B1: Employment	General Disclosure	Exemplary Workplace Practices
Aspect B2: Health and Safety	General Disclosure	Health and Safety
Aspect B3: Development and Training	General Disclosure	Training and Development
Aspect B4: Labor Standards	General Disclosure	Exemplary Workplace Practices
Aspect B5: Supply Chain Management	General Disclosure	Managing our Supply Chain
Aspect B6: Product Responsibility	General Disclosure	Customer Service and Guest Experience Social Inclusion and Accessibility
Aspect B7: Anti-corruption	General Disclosure	Corporate Governance Report in this Annual Report
Aspect B8: Community Investment	General Disclosure	The Hang Lung As One Volunteer Team The Hang Lung Young Architects Program Social Inclusion and Accessibility

CLARITY

We owe our success in no small part to rigorous risk management, enabled by a stable and transparent system of governance that leaves no room for uncertainties and affording the greatest extent of accountability to our stakeholders.

Risk Management

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

The Company's principal risks in 2017 are listed below:

Property Development Risk

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

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Heavy capital investment coupled with a long investment period and market cycles provide both opportunities and challenges in land acquisition		• Set investment criteria and risk appetite prior to land acquisition • Consolidate local market information • Conduct appropriate due diligence including third party expert reviews • Identify critical resource constraints for proper planning • Undertake structured analyses of business opportunities • Exercise financial prudence and continuous monitoring of return on investment
Complexity of design, tight deadlines and increases in material cost after tender award due to major changes in macro government policies, e.g. de-capacity in mainland China, present implementation challenges in delivering projects on budget, on time and in line with required quality		• Establish clear roles and responsibilities for accountability and division of duties among the Development and Design, Project Management, Cost and Controls, Leasing, and Service Delivery departments at various stages of the development cycle • Closely monitor project progress and review all aspects of a development's planning and construction • Closely monitor rising costs and supply of materials, tighten controls on price variation claims, and define terms in both the tenders and the contracts • Establish clear and comprehensive policies and procedures with periodic enhancements to tighten controls • Provide regular and comprehensive reports to the Board, and strengthen management supervision
Introduction of new government regulations or sudden policy changes without sufficient consultation could adversely affect a project's development	New/updated laws and regulations at both national and local level	• Actively engage with regulatory bodies and professional firms on updates to laws and regulations • Monitor the impact of major breaches or non-compliance with regulatory requirements, if any • Continue monitoring and assessing the impact of the regulatory changes • Maintain proper and sufficient documentation as far as possible

Business and Operational Risk

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

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Changes in economic conditions and a challenging retail market in mainland China could impact our business strategy	Increasing local competition and impact of online/ overseas shopping	• Conduct structured market studies and research to understand local competitors and customer needs • Review and enhance tenant mix regularly at each project site, engaging new brands • Review the asset performance of each property on a regular basis and fine-tune business strategy, including refinement of positioning and different product lines for existing malls, to remain competitive • Perform tenant and shopper surveys to further improve levels of satisfaction and overall service quality • Undertake project renovations and employ proactive marketing strategies as necessary
Fast-paced technological innovations such as advances in e-commerce and mobile applications, as well as rapidly changing consumer behavior and taste could impact the Company's business model or strategy	Development of e-commerce, overseas purchasing and changes in consumer taste undermining competitiveness	• Study the latest relevant technological developments and customer needs such as Artificial Intelligence and B2C big data • Ensure IT infrastructure readiness for anticipated future IT developments such as smart car park systems • Establish targeted Customer Relationship Management programs to better understand customers, drive sales, and increase customer loyalty
Major external disasters or crises, such as pandemics, pollution, floods, earthquakes, cyber-crime, etc., could impact assets or business sustainability		• Ensure appropriate insurance coverage for properties and business • Develop business continuity plans for each critical function • Implement crisis management training and drills, including cyber-attack scenarios • Conduct testing on the effectiveness of the design and implementation of crisis management plans • Conduct cyber security assessments and increase defense in gaps identified

Risk Management

People Risk

Strong competition for talented staff and the tight labor market across the property management sector, together with the additional demand on resources from new projects create a challenging environment for the Company as it seeks to provide adequate resources to support its existing and growing business. The sudden loss of key management is another risk which may affect our ability to operate.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Failure to recruit, develop or retain staff with suitable capabilities and the capacity to support expansion/growth of the Company	▲ Challenges in recruiting/ retaining talents at second-tier cities in mainland China	• Develop a manpower plan to match existing and future human capital resources needs against our business strategy • Review the competitiveness of our compensation and benefits regularly • Provide training courses such as the Executive Training Program or offer financial assistance for staff attending recognized professional programs • Establish programs for management trainees (including dedicated mentorship), internship program, and internal rotation to ensure our operations are supported by adequate talents • Regularly review assignment policy and benchmark it to the market • Refine our training program from time to time to ensure our staff possess the expertise and skills to support business growth • Promote employer branding to attract and retain talents
Sudden loss of key management could affect the sustainability of the business	↔	• Establish more structured succession planning for key management team members • Accelerate the internal movement of staff with the right caliber to build succession into key roles
Fraud and corrupt activities could result in significant financial losses and/or impact the reputation of the business	↔	• Strengthen commitment to the highest standards of integrity and accountability • Provide continuous training and reinforce communications with staff on integrity, impartiality, and honesty • Operate an effective whistleblowing mechanism and grievance reporting system

Treasury Risk

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

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

In addition to addressing the principal risk categories faced by the Company, specific emerging risks, such as increasing international and regional political tensions that may affect our operations, have been monitored closely and reviewed periodically during the year. The Company recognizes that the potential impact of such emerging risks may become more significant in the future.

Key — Risk Trend (Change from last year)

▲ Upward/increasing risk trend ↔ Risk trend remains similar

Corporate Governance Report

The ever-changing business environment has not affected our commitment to pursue good corporate governance. Over the past few years, Hang Lung has strived for excellence. Our governance practices are well recognized and endorsed, both internally and externally. We believe that sound corporate governance is a strong foundation for our business to grow and is our key to future success.

In 2017, our ERM Working Group has made further progress by formalizing and fine-tuning the risk management system for our operating sites and sites under development. We have also regularly reviewed and improved our governance practices and enforced our belief that a strong corporate governance structure remains a cornerstone of our sustainable growth and long-term success.

Our Strong Belief in Governance

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

Corporate Governance Structure

A Sound Corporate Culture

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

Professional and Responsible Board

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

Prudent Risk Management

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

Compliance with Corporate Governance Code

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

The key cases are listed below:

Board & Board Committees

- Six regular Board meetings in 2017
- Four Audit Committee meetings in 2017
- Management's attendance in the meetings of the Board and Audit Committee for provision of information to facilitate decision-making process
- Strong Board independence with over half of its members being INEDs
- The Nomination and Remuneration Committee and Audit Committee comprising INEDs only
- Audit Committee members meeting external auditor without the presence of management four times in 2017

Sustainability

- Sustainability framework in place since 2012 with the establishment of Sustainability Steering Committee
- ERM Working Group as a robust forum for risk management
- Well established framework for robust crisis management
- Publication of separate sustainability reports since the financial year 2012
- Adoption and exceeding the provisions of the ESG Guide in the sustainability reports

Accountability

- Publication of results announcement within one month from the end of accounting period
- Adoption of Code of Conduct since 1994
- Well-defined whistleblowing policy
- Whistleblowing cases reported to the Audit Committee on a half-yearly basis
- Policy governing the non-audit services provided by the external auditor in place with scopes and fees approved by the Audit Committee

Communications

- The Chairman's detailed explanation of the business strategies and outlook of the Group in his Letter to Shareholders
- Open and direct dialogue between the Chairman and shareholders in AGM
- Corporate website as means of communication with stakeholders
- Serving of AGM notice with more than 20 clear business days

(I) Effective and Qualified Board

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

Composition

The Board currently comprises ten members:

- four Executive Board Members, namely, Mr. Ronnie C. Chan (Chairman), Mr. Philip N.L. Chen (Chief Executive Officer[1]), Mr. H.C. Ho (Chief Financial Officer) and Mr. Adriel W. Chan; and
- six INEDs, namely, Mr. Ronald J. Arculli, Mr. Dominic C.F. Ho, Mr. Nelson W.L. Yuen, Dr. Andrew K.C. Chan, Prof. H.K. Chang and Ms. Anita Y.M. Fung.

Our INEDs possess diverse academic and professional qualifications or related financial management expertise and bring a wide range of business and financial experience to the Board.

Mr. Ronnie C. Chan is the father of Mr. Adriel W. Chan.

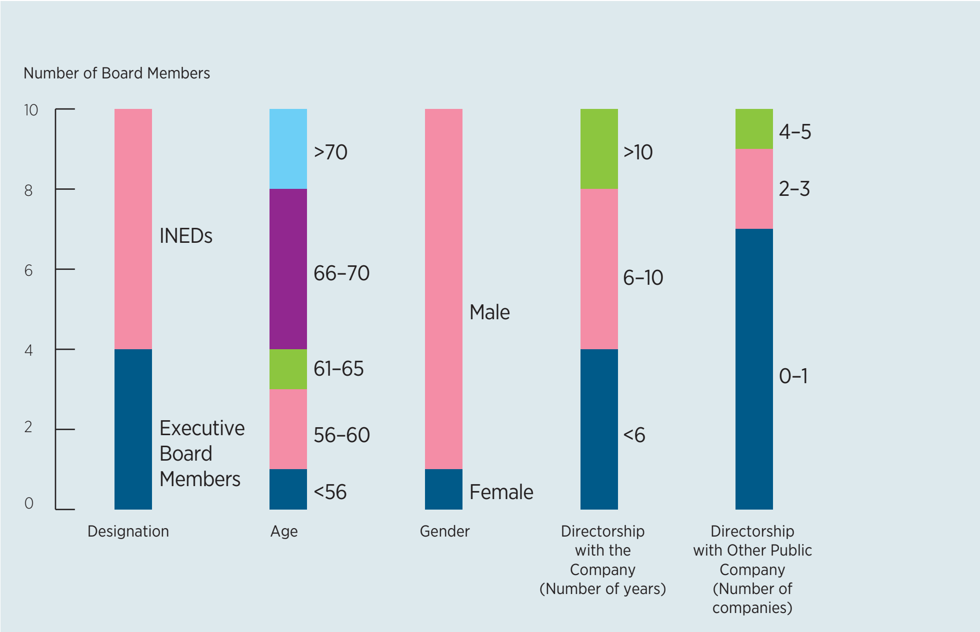
Board Diversity

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

The current Board consists of a diverse mix of Board Members with appropriate skills and experience to lead and oversee the business of the Company, and depending on the needs of our growing business and the availability of competent candidates to fulfill those needs, suitably qualified individuals will be considered in the future for membership.

[1] *The title of "Managing Director" has been changed to "Chief Executive Officer" with effect from July 1, 2017 without any changes to his functions or executive responsibilities.*

Board composition and diversity as at December 31, 2017 are as follows:



Functions

An updated list of Board Members identifying their roles and functions and whether they are INEDs is maintained on our website and the website of HKEx. Their biographical details, disclosed on pages 122 to 126 of this annual report, are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board is responsible for, among other things:

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

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

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

In 2017, six regular Board meetings were held. Two Board meetings were held during two offsite Board trips: (1) a Shanghai trip in conjunction with the completion of the asset enhancement program of the Plaza 66 mall and (2) an Australia trip for visits to a leading mall operator.

In 2017, the overall average attendance rate of Board Members at Board meetings was 97%. Details of Board Members' attendance records in 2017 are set out below:

Board Members	Meetings Attended/Held			
	Board	Audit Committee	Nomination and Remuneration Committee	2017 AGM
Independent Non-Executive Directors				
Ronald J. Arculli	4/6	N/A	1/1	0/1
Dominic C.F. Ho	6/6	4/4	1/1	1/1
Nelson W.L. Yuen	6/6	N/A	N/A	0/1
Andrew K.C. Chan	6/6	4/4	N/A	1/1
H.K. Chang	6/6	4/4	1/1	1/1
Anita Y.M. Fung	6/6	4/4	N/A	1/1
Executive Directors				
Ronnie C. Chan	6/6	N/A	N/A	1/1
Philip N.L. Chen	6/6	N/A	N/A	1/1
H.C. Ho	6/6	N/A	N/A	1/1
Adriel W. Chan	6/6	N/A	N/A	1/1

Board Process and Access to Information

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

Furthermore, management provides all Board Members with monthly updates which give a balanced and up-to-date assessment of the Company's performance, position, and prospects in sufficient detail to enable the Board as a whole and each Board Member to discharge his/her duties under the Listing Rules.

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

In addition, all Board Members have access to the advice and services of the Company Secretary, a full time employee of the Company, who is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The Company Secretary has confirmed that she took more than 15 hours of relevant professional training to update her skills and knowledge in 2017.

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

Under the Articles of Association, a Board Member shall not vote or be counted in the quorum in respect of any transaction, contract or arrangement in which he/she or any of his/her associates is/are materially interested unless otherwise stated. As a matter of good corporate governance and to avoid any appearance of conflict of interests, Mr. Ronnie C. Chan, Mr. Philip N.L. Chen, Mr. H.C. Ho and Mr. Adriel W. Chan, the Executive Board Members of the Company who are also the executive board members of HLGL, had abstained from voting to approve the connected transaction of the Company as announced on November 20, 2017.

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

2. *Clear Division of Responsibilities between Chairman and Chief Executive Officer*

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure a balance of power and authority.

Chairman

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

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

He, at least annually, holds meetings with the INEDs without the other Executive Board Members being present.

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

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

He promotes a culture of openness and debate by facilitating the effective contribution of INEDs in particular and ensures constructive relations between Executive Board Members and INEDs.

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

Chief Executive Officer

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

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

The Chief Executive Officer chairs the monthly meetings of the Company's various operational divisions. The Chief Executive Officer also chairs the biweekly "Morning Prayer" meetings of the Company's key executives. Matters concerning the day-to-day operations of the Company are discussed in these meetings. He reports to the Board from time to time on matters of material importance.

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

3. *Independence of INEDs*

We have received from each of our INEDs an annual confirmation of his/her independence and we consider each INED to be independent.

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

4. *Appointment, Re-election and Removal*

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

The INEDs are appointed for specific terms, which coincide with their expected dates of retirement by rotation at least once every three years.

5. *Continuous Professional Development*

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

All Board Members are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Chairman also arranges suitable training for Board Members from time to time. In 2017, the Company arranged for a Board Members' training on pertinent issues for the Board as well as market and regulatory updates.

Record of training received by each Board Member in 2017 is summarized below:

Board Members	Types of Training
Ronnie C. Chan	A, B, C
Philip N.L. Chen	A, B, C
Ronald J. Arculli	A, B
Dominic C.F. Ho	A, B, C
Nelson W.L. Yuen	A, B, C
Andrew K.C. Chan	A, B, C
H.K. Chang	A, B, C
Anita Y.M. Fung	A, B, C
H.C. Ho	A, B, C
Adriel W. Chan	A, B, C

A Attending seminar(s)/forum(s) and/or giving talk(s) relating to the business or directors' duties
B Reading materials relating to the business or directors' duties
C Attending corporate event(s)/visit(s)

(II) Delegation by the Board

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

1. *Executive Committee*

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

2. *Audit Committee*

An Audit Committee was established by the Board in 1999. The Committee currently comprises entirely INEDs, namely, Mr. Dominic C.F. Ho (Chairman of the Committee), Dr. Andrew K.C. Chan, Prof. H.K. Chang and Ms. Anita Y.M. Fung. They possess appropriate academic and professional qualifications or related financial management expertise.

Under the CG Code, it is required that meetings are held at least two times per year with the external auditor. Separate meetings are also held with the external auditor, in the absence of management, as and when required. The Audit Committee has exceeded the CG Code requirements and held four meetings in 2017 for the purpose of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. Moreover, the Committee met the external auditor four times in 2017 without the presence of management.

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

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

In 2017, the Audit Committee performed, inter alia, the following:

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

- reviewed and obtained an explanation from management and the external auditor for the interim and annual results, including the causes of changes from the previous accounting period, the effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board;
- considered and proposed to the Board the re-appointment of KPMG as the Company's external auditor and approved its terms of engagement;
- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company, and approved the scopes and fees for non-audit assignments;
- received and reviewed the internal audit reports from the Internal Auditor;
- held meetings with the external auditor in the absence of management to discuss any material audit issues;
- held meetings with the Internal Auditor in private to discuss material internal audit issues;
- approved the internal audit plan for 2018;
- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, training programs, and the Company's procedures for financial reporting and internal audit;
- reviewed and approved amendments to the Internal Audit Charter; and
- reviewed cyber security risk.

Corporate Governance Functions

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

The Audit Committee also reviewed environmental, social and governance (ESG) related risks and confirmed that the ESG risk management and internal control systems were in place and remained effective throughout 2017.

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

3. *Nomination and Remuneration Committee*

A Nomination and Remuneration Committee, set up in 2003, now comprises entirely INEDs, namely, Mr. Ronald J. Arculli (Chairman of the Committee), Mr. Dominic C.F. Ho and Prof. H.K. Chang. Regular reviews of significant changes to the salary structure of the Group and the terms and conditions affecting Executive Board Members and senior management are conducted. The Committee met once in 2017 to review, inter alia, the composition of Board Members and Board Members' remuneration.

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

The major works performed by the Committee in 2017 included the following:

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

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

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

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

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

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

4. Management Functions

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

(III) Securities Transactions and Share Interests

1. *Securities Transactions*

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

The Company has also set out guidelines regarding securities transactions by relevant employees who, because of their office in the Company or its subsidiary, are likely to be in possession of inside information. The relevant employees are also requested to comply with the required standard set out in the Model Code. All the relevant employees are reminded of the compliance of the guidelines every six months.

2. *Share Interests*

Details of Board Members' interests in shares of the Company and HLGL as at December 31, 2017 are as follows:

	The Company		Hang Lung Group Limited
Board Members	**Number of Shares**	**Number of Shares under Option**	**Number of Shares**
Ronnie C. Chan	16,330,000	21,000,000	11,790,000
Philip N.L. Chen	–	24,000,000	–
Ronald J. Arculli	724,346	–	1,089,975
Dominic C.F. Ho	–	–	–
Nelson W.L. Yuen	–	15,410,000	–
Andrew K.C. Chan	–	–	–
H.K. Chang	–	–	–
Anita Y.M. Fung	–	–	–
H.C. Ho	–	12,300,000	–
Adriel W. Chan (Note)	2,532,812,340	2,200,000	498,428,580

Note

Mr. Adriel W. Chan was deemed to be interested in 2,532,812,340 shares of the Company and 498,428,580 shares of HLGL as he was a discretionary beneficiary of a family trust. The family trust held 498,428,580 shares (representing 36.61% interests) of HLGL and held/was deemed to be interested in 2,532,812,340 shares of the Company.

(IV) Accountability and Audit

1. *Financial Reporting*

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

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

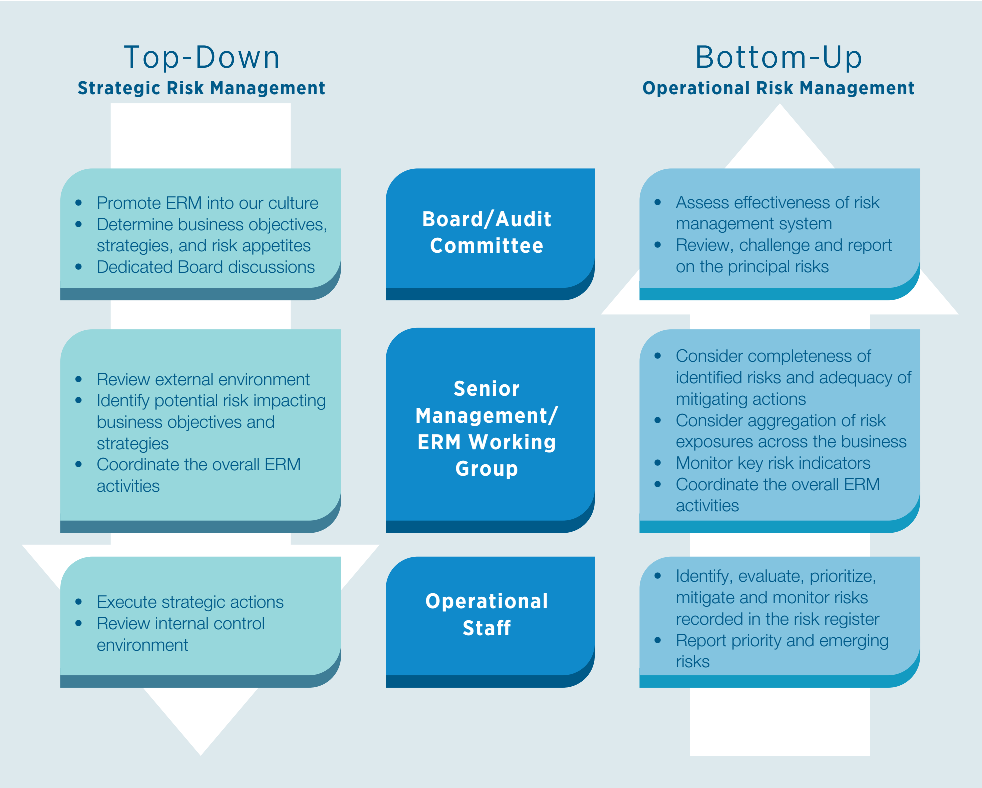
2. *Risk Management and Internal Controls*

Risk Management Framework

The Board has overall responsibility for risk management and for determining the nature and extent of significant risks it is willing to take to achieve the Company's strategic objectives. The Audit Committee is delegated to oversee the effectiveness of our risk management system. Management is tasked with the design, implementation, and maintenance of a sound and effective risk management framework with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) principles, which is crucial in delivering our corporate strategies and ensuring the sustainability of our business.

Risks are inherent in every sector of our business, and it is important to have a risk-awareness culture throughout the organization, and a systematic approach to identify and assess risks such that they can be reduced, transferred, avoided or understood. We are committed to continuously enhancing our risk management framework, linking it to our corporate strategies as well as integrating it into our day-to-day operations and decision-making. Chaired by an Executive Board Member, the ERM Working Group (comprising unit heads from all business units and support divisions), within the approved terms of reference, has been established as our second line of defense to coordinate and oversee risk management activities, whilst operational management remains the first line of defense. The Internal Audit Department, reporting directly to the Audit Committee on risk management and internal control matters, acts as the third line of defense in this system.

The Company takes proactive measures to identify, evaluate, and manage significant risks arising from our business and from the constantly changing business environment at different levels within the organization. This integrated approach combines a top down strategic view with a complementary bottom up operational process as illustrated below:



A list of principal risks, covering both strategic and operational risks as identified by our risk assessment process, is compiled with reference to their residual risk impact and likelihood (after taking into consideration the mitigation controls outlined by individual risk owners). Action plans are developed, and risk ownership is assigned for each principal risk. The risk owners coordinate the mitigation measures to ensure proper implementation of these action plans. They are also required to continuously monitor, evaluate, and report on risks for which they bear responsibility. Mitigation controls are subject to internal audit review and testing.

During the year, the Company has continued to formalize and fine-tune the risk management system in place for operating sites and sites under development. Various risk management workshops have been arranged and were attended by the key local management teams not only to further promote risk awareness across all levels of the organization, but also to engage them in the risk assessment process. All sites were required to adopt the corporate risk matrix structure with a scaled impact level in order to establish their own specific risk registers, to determine the impact and likelihood of identified risks, as well as to establish mitigating actions. Top risks at operational level were then extracted from each site's detailed risk register and reported to the Board and the Audit Committee accordingly.

Through this integrated top-down and bottom-up risk review processes, which enables risks identification and prioritization throughout the Company, we maintain effective lines of communication to ensure timely escalation of potential risks and initiation of mitigating actions to manage them.

The principal risks that the Company faces may not change significantly from year to year, although the magnitude and significance of these risks can and do vary. Our ongoing review of the principal risks focuses on how changes might arise and how our controls need to be adapted in response to evolving business conditions and organizational changes. The ERM Working Group takes a robust assessment of the principal risks and uncertainties that the Company is exposed to. During 2017, enhancement measures to existing controls were implemented to mitigate rising risks from increasing competition in the retail market. The recruitment and retention of capable talents was also undertaken to support the growth of the Company. Meanwhile, risks from the development of e-commerce, overseas purchasing, changing consumer behavior or tastes, and fast-paced innovation in technology continued to present challenges to our business strategy, while the risks from further optimization of offshore Renminbi liquidity and rising US interest rates have increased in significance. These principal risks, together with their respective mitigating actions, are covered in the Risk Management section of this annual report.

As the second line of defense, the ERM Working Group is responsible for overseeing risk management activities across all functions. In 2017, it met four times and achieved the following:

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

ERM Working Group Primary Duties

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

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

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

Internal Control Framework

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

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

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

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

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

In 2017, the Audit Committee met quarterly to discuss internal audit issues with the Internal Auditor, as well as to enquire on financial and internal control matters with the external auditor. The Audit Committee held four direct discussions with the external auditor in the absence of management. The Audit Committee reported to the Board on key issues arising from these meetings.

There were no significant control failings or weaknesses identified that have not been rectified in 2017. Our internal audit function has been operating effectively.

Annual Assessment

With the confirmation of the management and the foregoing review by the Audit Committee covering all material controls, including financial, operational and compliance controls and risk management functions of the Company and its subsidiaries for the financial year ended December 31, 2017, the Board concluded that effective and adequate risk management and internal control systems had been in operation.

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

3. Code of Conduct

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

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

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

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

All staff are made aware of issues pertaining to integrity and the Company's zero-tolerance policy for misconduct through the Code of Conduct, policies, and procedures. Launched in 2013, the Hang Lung Integrity Program was established to enforce the highest standards of integrity and honesty from every process and every employee in Hong Kong and mainland China. In 2017, 86,469 training hours were delivered to our employees, of which about 235 training hours were delivered as part of the program.

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

4. *Inside Information*

The Company has adopted a Policy on Disclosure of Inside Information since 2013 setting out the procedures and controls for handling and dissemination of inside information in compliance with the SFO and the Listing Rules, including:

- disclosure of inside information as soon as reasonably practicable under the applicable laws and regulations;
- publication of interim and annual results within one month from the end of accounting periods to minimize the risk of leakage;
- conduct of its affairs with close adherence to the "Guidelines on Disclosure of Inside Information" issued by Securities and Futures Commission;
- authorizing designated person(s) as spokespersons for communications with stakeholders;
- imposing a strict prohibition on the unauthorized disclosure and use of inside information in its Code of Conduct; and
- reminders to the Board Members and staff members (through key executives) of the compliance of the policy every six months.

In 2017, the policy has been updated after review by the Audit Committee and Internal Auditor. The Company has also arranged a training to Board Members on the update of the disclosure obligation of inside information.

5. *Independence of External Auditor*

KPMG conducts audits on the annual consolidated financial statements of the Company, and confirms every year its independence and objectivity. To ensure the independence of KPMG,

- the Audit Committee regularly reviews and monitors the independence of KPMG;
- the Audit Committee reviews the audit scope and non-audit services and approved the relevant fees;
- the policy on engaging the external auditor for non-audit services is in place and regularly reviewed by the Audit Committee. KPMG will confirm its independence before accepting the engagement of non-audit services; and
- the Audit Committee considers and proposes to the Board every year for the re-appointment of KPMG as the auditor.

KPMG confirms its independence with regard to The Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants regarding auditor independence.

Total remuneration in respect of services provided by KPMG is as follows:

	Year ended December 31, 2017 HK$ (in million)	Year ended December 31, 2016 HK$ (in million)
Statutory audit services	**8**	8
Non-audit services	**5**	4

(V) Communication with Stakeholders

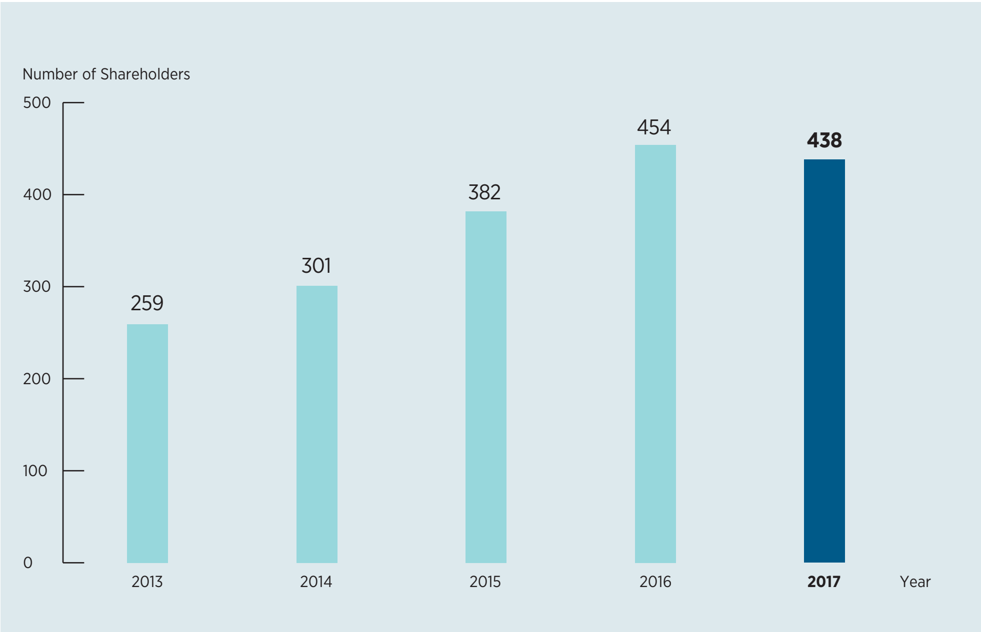
1. Shareholders

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

AGMs

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

Shareholders participation in AGMs is as follows:



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

2017 AGM

Our last AGM was held on April 27, 2017 at Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong. The meeting was attended by 438 shareholders present in person or by proxy. At the meeting, the Chairman had demanded a poll on each of the resolutions submitted for voting, and the shareholders were provided with detailed procedures for conducting the poll.

The resolutions tabled at the 2017 AGM included:

- the adoption of the financial statements;
- the declaration of a final dividend;
- the re-election of Board Members;
- the re-appointment of the auditor; and
- the renewal of general mandates.

All these resolutions were voted on by poll, and the results of poll voting were posted on the websites of our Company and of HKEx in the evening of the same day. There are no changes in the Articles of Association, which is available on our website and the website of HKEx, in 2017.

The Board confirms that there are no changes proposed to the Articles of Association at the forthcoming AGM to be held on April 26, 2018. The important shareholders' dates for the coming financial year, which include the Board meetings for considering the payments of interim and final dividends for the year ending December 31, 2018, and the AGM, are expected to be held in around late July 2018, late January 2019, and in April 2019 respectively.

Procedure for Shareholders to Convene General Meetings

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

Procedure for Shareholders to Put Forward Proposals in General Meetings

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

Procedure for Shareholders to Propose a Person for Election as a Board Member

According to the Articles of Association, if any shareholder(s) representing not less than 10% of the total voting rights of all the shareholders of the Company wish(es) to propose a person (other than a retiring Board Member) for election as a Board Member (the Candidate) at a general meeting of the Company, the following documents must be lodged at our registered office:

(i) a written notice of such a proposal duly signed by the shareholder(s) concerned; and

(ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected.

The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such an election, and end no later than seven days prior to the date of said meeting.

Enquiries from Shareholders

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

2. *Investors*

Details of shareholders by domicile as at December 31, 2017 are as follows:

	Shareholders		Shareholdings	
Domicile	**Number**	%	**Number of Shares**	%
Hong Kong	2,877	94.24	4,488,093,256	99.79
Mainland China	53	1.74	3,887,790	0.09
Macau	8	0.26	377,433	0.01
Taiwan	2	0.07	593	0.00
Australia and New Zealand	9	0.29	14,085	0.00
Canada and United States of America	45	1.47	2,635,484	0.06
South East Asia	48	1.57	2,550,267	0.05
United Kingdom	7	0.23	13,400	0.00
Others	4	0.13	3,362	0.00
TOTAL	**3,053**	**100.00**	**4,497,575,670**	**100.00**

Details of shareholders by holding range as at December 31, 2017 are as follows:

	Shareholders *		Shareholdings *	
Holding Range	**Number**	%	**Number of Shares**	%
1 – 1,000 shares	1,434	46.97	649,085	0.01
1,001 – 5,000 shares	786	25.75	2,240,242	0.05
5,001 – 10,000 shares	290	9.50	2,364,857	0.06
10,001 – 100,000 shares	450	14.74	15,814,983	0.35
Over 100,000 shares	93	3.04	4,476,506,503	99.53
TOTAL	**3,053**	**100.00**	**4,497,575,670**	**100.00**

* incorporating, in their respective shareholdings range, 389 participants of Central Clearing and Settlement System holding a total of 2,835,640,353 shares registered in the name of HKSCC Nominees Limited

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

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

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

Moving Forward

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

Profile of the Directors

Mr. Ronnie Chichung Chan
Chairman

Aged 68, Mr. Chan joined the Hang Lung group in 1972 and was appointed to the Board of Hang Lung Properties Limited in 1986 before becoming Chairman in 1991. He also serves as Chairman of Hang Lung Group Limited. Mr. Chan is Vice-President of The Real Estate Developers Association of Hong Kong, Chairman Emeritus of Asia Society and Chairman of its Hong Kong Center. He is also a former Chairman of the Executive Committee of One Country Two Systems Research Institute, and former Vice President and former Advisor of the China Development Research Foundation in Beijing. Mr. Chan sits on the governing or advisory bodies of several think-tanks and universities, including Peterson Institute for International Economics, The Hong Kong University of Science and Technology, and University of Southern California, USA, where he received his MBA. Mr. Chan is a Fellow of the American Academy of Arts and Sciences. He is the father of Mr. Adriel Chan, an Executive Director of the Company.

Mr. Philip Nan Lok Chen
Chief Executive Officer

Aged 62, Mr. Chen joined the Company and its listed holding company, Hang Lung Group Limited, in 2010. Mr. Chen has more than 30 years of management experience, mostly in the aviation industry, acquiring a wealth of experience in Hong Kong, Mainland China and beyond. Mr. Chen graduated from the University of Hong Kong in 1977 with a Bachelor of Arts degree and holds a Master's degree in Business Administration from the same university.

Mr. Ronald Joseph Arculli

GBM, CVO, GBS, OBE, JP

Independent Non-Executive Director

Aged 79, Mr. Arculli joined the Board in 1980. He is a practicing solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. Mr. Arculli was a Non-Official Member of the Executive Council of the HKSAR from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He was the Independent Non-Executive Chairman of Hong Kong Exchanges and Clearing Limited from April 2006 to April 2012, and remained as an Independent Non-Executive Director until his retirement in April 2013. Mr. Arculli has a distinguished record of public service and has served on numerous government committees and advisory bodies. He is a Non-Executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited, Tsim Sha Tsui Properties Limited, HK Electric Investments Manager Limited (as trustee-manager of HK Electric Investments) and HK Electric Investments Limited (all are listed companies except HK Electric Investments Manager Limited).

Mr. Dominic Chiu Fai Ho

Independent Non-Executive Director

Aged 67, Mr. Ho joined the Board as an Independent Non-Executive Director in April 2008. He retired as co-chairman of KPMG, China and HKSAR in March 2007. Mr. Ho obtained his degrees at the University of Houston in the United States and is a member of the American Institute of Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He was a past member of the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption and of the Insurance Advisory Committee, both in Hong Kong. Mr. Ho is an Independent Non-Executive Director of Singapore Airlines Limited and DBS Bank (Hong Kong) Limited, and the Non-Executive Chairman of DBS Bank (China) Limited.

Profile of the Directors

Mr. Nelson Wai Leung Yuen
Independent Non-Executive Director

Aged 67, Mr. Yuen joined Hang Lung in 1978, became an Executive Director of the Company in 1986, and was appointed as Managing Director of the Company and its holding company, Hang Lung Group Limited, in 1992 until he retired in July 2010. He became a Non-Executive Director of the Company in March 2011 and was re-designated as Independent Non-Executive Director in November 2014. Mr. Yuen is a graduate of The University of Manchester, UK and a Fellow of The Institute of Chartered Accountants in England and Wales.

Dr. Andrew Ka Ching Chan BBS, JP
Independent Non-Executive Director

Aged 68, Dr. Chan joined the Board as a Non-Executive Director in October 2014 and was re-designated as Independent Non-Executive Director in December 2015. He is Chairman of Trustees' Board of the global Arup Group, one of the world's foremost multi-disciplinary engineering consultants. Previously, Dr. Chan was the Deputy Chairman of Arup Group and retired in October 2014. He is an expert in civil and geotechnical engineering with over 40 years of experience in the engineering profession, and is distinguished for his leadership in the creation, design and delivery of many innovative and award-winning building projects as well as major infrastructure schemes in many cities in Asia. Dr. Chan is a past President and Gold Medallist of The Hong Kong Institution of Engineers, Founding Chairman of the Hong Kong Green Building Council, Honorary Fellow of the Hong Kong University of Science and Technology, Fellow and past President of the Hong Kong Academy of Engineering Sciences, and Fellow of the Royal Academy of Engineering, UK's national academy. He obtained his PhD degree from the University of Cambridge in Soil Mechanics. Dr. Chan was appointed Justice of the Peace in 2006 and awarded the Bronze Bauhinia Star in 2012.

Prof. Hsin Kang Chang GBS, JP

Independent Non-Executive Director

Aged 77, Prof. Chang joined the Board as an Independent Non-Executive Director in April 2015. He became an Honorary Professor in 2006 and Yeh-Lu Xun Chair Professor from 2008 to 2015 at Peking University, and an Honorary Professor at Tsinghua University in 2007. Prof. Chang was the President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was Dean of the School of Engineering at the University of Pittsburgh in the US from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994, and Chairman of the Department of Biomedical Engineering at the University of Southern California in the US from 1985 to 1990. Prof. Chang taught at several major universities in North America and served in a number of scholarly societies and public advisory bodies in the US, serving as President of Biomedical Engineering Society of the US in 1988-89. In Hong Kong, he was Chairman of the Cultural and Heritage Commission from 2000 to 2003, a member of the Council of Advisors on Innovation and Technology from 2000 to 2004 and a member of Judicial Officers Recommendation Commission from 1999 to 2005. Prof. Chang is a Foreign Member of the Royal Academy of Engineering of the United Kingdom, Member of International Eurasian Academy of Sciences, Chévalier dans l'Ordre National de la Légion d'Honneur and Commandeur dans l'Ordre des Palmes Académiques of France. He obtained his Bachelor's degree in civil engineering from National Taiwan University in 1962, Master's degree in structural engineering from Stanford University in the US in 1964 and Ph.D degree in biomedical engineering from Northwestern University in the US in 1969. Prof. Chang is an Independent Non-Executive Director of Brightoil Petroleum (Holdings) Limited and HKT Trust and HKT Limited. He previously acted as an Independent Non-Executive Director of Hon Kwok Land Investment Company, Limited. Prof. Chang was appointed Justice of the Peace in 1999 and awarded the Gold Bauhinia Star in 2002.

Ms. Anita Yuen Mei Fung BBS, JP

Independent Non-Executive Director

Aged 57, Ms. Fung joined the Board as an Independent Non-Executive Director in May 2015. She is former Group General Manager of HSBC Holdings plc and former Chief Executive Officer Hong Kong of The Hongkong and Shanghai Banking Corporation Limited. Ms. Fung has held a number of positions with key financial bodies in Hong Kong and has been actively promoting the development of the financial markets of Hong Kong as well as other regions. She is a former member of the Financial Infrastructure Sub-Committee of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority. Ms. Fung also serves on a number of public bodies and advisory bodies including an Independent Non-Executive Member of the Board of Airport Authority Hong Kong, a Non-Official Member of Hong Kong Housing Authority, Director of The Hong Kong Mortgage Corporation Limited, a Member of the Board of West Kowloon Cultural District Authority, a Member of the Museum Advisory Committee and a Member of the Judicial Officers Recommendation Commission. She is also a Trustee of Asia Society Hong Kong Center, an Honorary Professor of the School of Economics and Finance of the University of Hong Kong, and a Court Member of The Hong Kong University of Science and Technology and its former Council Member. Ms. Fung is an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited and China Construction Bank Corporation, and former Non-Executive Director of Bank of Communications Co., Ltd and Hang Seng Bank, Limited. She obtained her Bachelor's degree in Social Science from The University of Hong Kong and Master's degree in Applied Finance from Macquarie University, Australia. Ms. Fung was awarded the Bronze Bauhinia Star in 2013 and appointed Justice of the Peace in 2015.

Profile of the Directors

Mr. Hau Cheong Ho
Chief Financial Officer

Aged 58, Mr. Ho joined the Group in 2008. He was appointed to the Board of the Company and of its listed holding company, Hang Lung Group Limited, in 2010. Mr. Ho possesses over 30 years of management experience covering a wide range of industries in England, Australia, Hong Kong and Mainland China. He qualified as a chartered accountant in England and Wales and Australia and holds an MBA from the University of Melbourne, Australia and a Bachelor of Commerce Degree in Accounting from the University of Birmingham, UK.

Mr. Adriel Wenbwo Chan
Executive Director

Aged 35, Mr. Chan joined the Group in 2010. He was appointed to the Board of the Company and of its listed holding company, Hang Lung Group Limited, in 2016. He is now mainly responsible for the Development and Design Department, Project Management Department (including its asset assurance & improvement team) and Cost & Controls Department. Mr. Chan also chairs the Sustainability Steering Committee and Enterprise Risk Management Working Group, among his other responsibilities within the Group. Prior to joining the Group, he worked in finance, auditing, and risk management fields. Mr. Chan holds an Executive Master of Business Administration degree jointly awarded by the Kellogg School of Management at Northwestern University, USA and the Hong Kong University of Science and Technology, and a Bachelor of Arts degree in International Relations from University of Southern California, USA. He is a son of Mr. Ronnie Chan, Chairman of the Group.

Profile of Key Executives

Mr. Norman Ka Ngok Chan

Executive Director

Mr. Chan joined the Group in 2013. He is responsible for formulating and implementing strategies and business plans for the development of the Group's property leasing and management in Hong Kong and on the Mainland. Mr. Chan possesses over 35 years of experience in property leasing and management. He holds a Bachelor of Commerce degree from The University of Alberta, Canada. He is a Chartered Accountant of The Institute of Chartered Accountants of Alberta, a Fellow Member and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. Dane Ting Yat Cheng

Executive Director

Mr. Cheng joined the Group in 2017. He is overseeing the Head Office's Service Delivery Department including Property Services, Service Quality, Horticulture, Security and EST functions. Mr. Cheng possesses over 30 years of international experience in the aviation industry. He holds a Bachelor of Arts degree from The Chinese University of Hong Kong.

Ms. Linda Wing Sze Chan

Director — Central Marketing

Ms. Chan joined the Group in 2017. She possesses over 20 years of experience in marketing in Hong Kong and on the Mainland. She holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong.

Mr. Gabriel Kai Wah Cheung

Director — Cost & Controls

Mr. Cheung joined the Group in 2013. He possesses over 30 years of experience in cost & controls management in Hong Kong and on the Mainland. He holds a Master of Construction Management degree from the University of New South Wales, Australia. Mr. Cheung is a Registered Professional Surveyor (Quantity Surveying) of Hong Kong, a Fellow of the Hong Kong Institute of Construction Managers, a Fellow of the Royal Institution of Chartered Surveyors, a Fellow of the Hong Kong Institute of Surveyors, a Member of the Chartered Institute of Arbitrator and a Member of the Association of Cost Engineers. He is also an Honorary Fellow of Shenzhen Cost Engineer Association and holds the qualification for Registered Cost Engineer in mainland China.

Ms. Bella Peck Lim Chhoa

Director — Leasing & Management

Ms. Chhoa joined the Group as Company Secretary, General Counsel and Assistant Director — Corporate Affairs in 2011 and was appointed as Director — Leasing & Management in 2017. She currently oversees the leasing and management of the Hong Kong portfolios. Ms. Chhoa is a solicitor qualified to practice in Hong Kong. She holds a Master of Business Administration degree from The Chinese University of Hong Kong and a Bachelor degree in Law from The University of Hong Kong.

Profile of Key Executives

Mr. Wilfred Yiu Ming Kam

Director — Project Management

Mr. Kam joined the Group in 2017. He possesses over 30 years of experience in project development and management for both Hong Kong and Mainland projects. Mr. Kam holds a Bachelor of Science degree in Economics from The London School of Economics and Political Science, UK. He is also a Member of the Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales, UK.

Mr. Chuk Fai Kwan

Director — Corporate Communications & Investor Relations

Mr. Kwan joined the Group in 2011. He possesses over 30 years of experience in public relations and corporate affairs. He holds an Executive MBA degree from The University of Western Ontario, Canada, and a Bachelor of Arts degree from The University of Hong Kong.

Mr. Peter Ting San Leung

Director — Project Management

Mr. Leung joined the Group in 2014. He possesses over 30 years of experience in developing and managing projects on the Mainland and overseas. He holds a Postgraduate Diploma in Construction Project Management from The University of Hong Kong, a Bachelor of Architecture degree and a Bachelor of Science (Architecture) degree from McGill University, Canada. He is also a Registered Architect in Hong Kong, a Member of The Hong Kong Institute of Architects and holds a PRC Class 1 Registered Architect Qualification.

Mr. Moses Woon Tim Leung

Director — Development & Design

Mr. Leung joined the Group in 2007. He possesses over 25 years of experience in project design with various consultant firms and in exposure to Mainland projects. Mr. Leung holds a Bachelor of Arts degree in Architectural Studies and a Bachelor of Architecture degree from The University of Hong Kong. He is a Registered Architect in Hong Kong, a Member of The Hong Kong Institute of Architects and an Authorized Person under the Buildings Ordinance.

Mr. Adrian Kin Leung Lo

Director — Project Management

Mr. Lo joined the Group in 2013. He possesses 30 years of experience in architectural design and project management for both Hong Kong and Mainland projects. Mr. Lo holds a Master of Business Administration degree from Asia International Open University, Macau, a Bachelor of Arts degree in Architectural Studies and a Bachelor of Architecture degree from The University of Hong Kong. He is also a Registered Architect in Hong Kong, an Authorized Person under Buildings Ordinance and a Member of The Hong Kong Institute of Architects.

Mr. Raymond Wai Man Mak

Director and Group Financial Controller

Mr. Mak joined the Group in 2011. He possesses over 25 years of experience in finance, auditing and as company secretary. He holds a Master of Business Administration degree from The University of Warwick, UK. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Fellow Member of the Chartered Association of Certified Accountants, UK.

Mr. Mikael Jaeraas

Director — Central Leasing

Mr. Jaeraas joined the Group in 2016. He possesses over 14 years of experience in international retail business and supply chain development. He holds a Master of Social Science degree in Business Administration from Lund University, Sweden.

Mr. Derek Siu Fai Pang

Director — Leasing & Management

Mr. Pang joined the Group in 2012. He possesses over 20 years of experience in property leasing and management. He holds a Bachelor of Science degree from The University of Hong Kong. He is a member of The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors.

Mr. Joseph Kar Fai To

Director — Leasing & Management

Mr. To joined the Group in 2015. He possesses over 25 years of experience in business development. He holds a Master of Arts degree in Marketing from The University of Lancaster, UK and a Bachelor of Commerce degree from The University of Birmingham, UK.

Mr. Ricky Tin For Tsang

Director — Corporate Audit

Mr. Tsang joined the Group in 2014. He possesses over 30 years of finance, audit and risk management experience. He holds a Master and a Bachelor of Arts degree in Engineering Science from The University of Oxford, UK. He is a Fellow of The Hong Kong Institute of Certified Public Accountants, a Member of The Institute of Chartered Accountants in England and Wales and a Member of The Association of Corporate Treasurers, UK.

Ms. Margaret Ka Man Yan

Director — General Counsel & Company Secretary

Ms. Yan joined the Group in 2017. She possesses over 25 years of legal advisory experience. Ms. Yan is a solicitor qualified to practice in Hong Kong. She holds a Postgraduate Certificate in Laws and a Bachelor of Laws degree from The University of Hong Kong. She is also a member of The Law Society of Hong Kong, The Law Society of England & Wales and The Law Society of ACT, Australia.

Mr. William Wing Chung Yiu

Director — Leasing & Management

Mr. Yiu joined the Group as Assistant Director — Corporate Audit in 2011 and was appointed as Assistant Director — Leasing & Management in 2013. He is currently as Director — Leasing & Management. He possesses over 20 years of experience in finance, internal audit, mainland China taxation, leasing and management. He holds a Master of Business Administration degree from the California State University, Hayward, USA, and a Bachelor of Economics degree from Monash University, Australia. He is a Certified Practising Accountant of the Australian Society of Certified Practising Accountants, an Associate of the Hong Kong Institute of Certified Public Accountants and a Member of the Institute of Internal Auditors.

Report of the Directors

The Directors of the Board have pleasure in submitting their report together with the audited consolidated Financial Statements for the year ended December 31, 2017.

Principal Activities

The principal activities of the Company are investment holding, and through its subsidiaries, property investment for rental income, property development for sales and leasing, car park management and property management.

An analysis of the revenue and trading results of the Company and its subsidiaries (collectively referred to as the Group) by operating segments during the financial year is set out in Note 3 to the Financial Statements.

Principal Subsidiaries and Joint Ventures

A list of principal subsidiaries and joint ventures, together with their places of operations and incorporation and particulars of their issued share capital/registered capital is set out in Notes 38 and 39 to the Financial Statements.

Financial Results

The results of the Group for the year ended December 31, 2017 are set out in the consolidated Financial Statements on pages 147 to 213.

Dividends

The Board now recommends a final dividend of HK58 cents per share which, together with the interim dividend of HK17 cents per share paid on September 28, 2017, makes a total of HK75 cents per share in respect of the year ended December 31, 2017. The proposed final dividend, if approved by the shareholders at the AGM on April 26, 2018, will be paid on May 16, 2018 to shareholders whose names appear on the register of members on May 3, 2018.

Business Review

A fair review of the Group's business and a discussion and analysis of the Group's performance during the year along with the material factors underlying its results and financial position are included in the Review of Operations and Financial Review sections from pages 28 to 63 and pages 66 to 77, respectively, of this annual report. A description of the principal risks and uncertainties facing the Company can be found throughout this annual report, particularly in the Risk Management section from pages 92 to 95. The particulars of important events affecting the Company which have occurred since the end of the financial year 2017, if any, can also be found in the abovementioned sections and the Notes to the Financial Statements. The outlook of the Group's business is discussed in the Review of Operations section from pages 28 to 63 of this annual report.

Report of the Directors

An analysis of the Group's performance using financial key performance indicators is provided in the Financial Highlights and Financial Review sections from pages 4 to 5 and pages 66 to 77, respectively, of this annual report. A discussion of the Company's environmental policies and performance and an account of the Company's relationships with its key stakeholders are provided in the Sustainable Development section from pages 80 to 89 of this annual report.

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

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

Ten-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 214 and 215.

Major Suppliers and Customers

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

Distributable Reserves

The Company's reserves available for distribution to shareholders as at December 31, 2017 amounted to HK$23,327 million (2016: HK$15,899 million).

Donations

Donations made by the Group during the year amounted to HK$16 million (2016: HK$19 million).

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2017 are set out in Note 18 to the Financial Statements.

Borrowing Costs Capitalization

Borrowing costs capitalized by the Group during the year amounted to HK$56 million (2016: HK$223 million).

Major Group Properties

Details of major properties of the Group as at December 31, 2017 are set out on pages 61 to 63.

Share Capital

During the year, no shares were issued (2016: 400,000 shares, fully paid, were issued for a total consideration of HK$6,700,000 as a result of the exercise of share options under the Company's share option scheme).

Details of the movement in share capital of the Company during the year are set out in Note 22 to the Financial Statements.

Equity-Linked Agreements

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

Particulars of the share option schemes are set out in note 29 to the Financial Statements and the paragraphs below.

Report of the Directors

Directors

The Directors of the Board during the year and up to the date of this report are set out on page 218 and their brief biographical details are set out on pages 122 to 126. Details of their remuneration are set out in Note 7 to the Financial Statements.

In accordance with articles 103 and 104 of the Articles of Association, Mr. Ronald J. Arculli, Mr. Ronnie C. Chan and Mr. H.C. Ho will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

Directors' Service Contracts

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

Directors' Interests in Transaction, Arrangement or Contract

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

Permitted Indemnity

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

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at December 31, 2017, the interests or short positions of each of the Directors of the Board in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)			Hang Lung Group Limited (Long Position)	
Name	**Capacity**	**Number of Shares**	**% of Number of Issued Shares**	**Number of Shares under Option** (Note 2)	**Number of Shares**	**% of Number of Issued Shares**
Ronnie C. Chan	Personal	16,330,000	0.36	21,000,000	11,790,000	0.87
Philip N.L. Chen	Personal	–	–	24,000,000	–	–
Ronald J. Arculli	Personal & Corporate	724,346	0.02	–	1,089,975	0.08
Dominic C.F. Ho	–	–	–	–	–	–
Nelson W.L. Yuen	Personal	–	–	15,410,000	–	–
Andrew K.C. Chan	–	–	–	–	–	–
H.K. Chang	–	–	–	–	–	–
Anita Y.M. Fung	–	–	–	–	–	–
H.C. Ho	Personal	–	–	12,300,000	–	–
Adriel W. Chan	Personal & Other (Note 1)	2,532,812,340	56.32	2,200,000	498,428,580	36.61

Notes

1. Other interests included 2,532,812,340 shares of the Company and 498,428,580 shares of HLGL held/deemed to be held by a trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.

2. Movements of Options under the Share Option Schemes of the Company

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2017	Lapsed during the Year	As at Dec 31, 2017	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
08/21/2007	Ronnie C. Chan Nelson W.L. Yuen	3,640,000 3,510,000	3,640,000 3,510,000	– –	$25.00	08/21/2008: 10% 08/21/2009: 20% 08/21/2010: 30% 08/21/2011: 40%	08/20/2017
08/21/2007	Ronnie C. Chan Nelson W.L. Yuen	5,600,000 5,400,000	5,600,000 5,400,000	– –	$25.00	08/21/2009: 10% 08/21/2010: 20% 08/21/2011: 30% 08/21/2012: 40%	08/20/2017
09/01/2008	H.C. Ho	300,000	–	300,000	$24.20	09/01/2010: 10% 09/01/2011: 20% 09/01/2012: 30% 09/01/2013: 40%	08/31/2018
12/31/2008	Nelson W.L. Yuen H.C. Ho	8,910,000 300,000	– –	8,910,000 300,000	$17.36	12/31/2010: 10% 12/31/2011: 20% 12/31/2012: 30% 12/31/2013: 40%	12/30/2018
02/08/2010	Ronnie C. Chan Nelson W.L. Yuen	6,500,000 6,500,000	– –	6,500,000 6,500,000	$26.46	02/08/2012: 10% 02/08/2013: 20% 02/08/2014: 30% 02/08/2015: 40%	02/07/2020
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012: 10% 07/29/2013: 20% 07/29/2014: 30% 07/29/2015: 40%	07/28/2020
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012: 10% 09/29/2013: 20% 09/29/2014: 30% 09/29/2015: 40%	09/28/2020
06/13/2011	Ronnie C. Chan Philip N.L. Chen H.C. Ho	4,500,000 4,500,000 3,000,000	– – –	4,500,000 4,500,000 3,000,000	$30.79	06/13/2013: 10% 06/13/2014: 20% 06/13/2015: 30% 06/13/2016: 40%	06/12/2021

2. Movements of Options under the Share Option Schemes of the Company (Continued)

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

		Number of Shares under Option					
Date Granted (mm/dd/yyyy)	**Name**	**As at Jan 1, 2017**	**Granted during the Year**	**As at Dec 31, 2017**	**Exercise Price per Share** (HK$)	**Vested Dates** (mm/dd/yyyy)	**Expiry Date** (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan	4,500,000	–	4,500,000	$28.20	06/04/2015: 10%	06/03/2023
	Philip N.L. Chen	4,500,000	–	4,500,000		06/04/2016: 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/04/2017: 30%	
	Adriel W. Chan	200,000	–	200,000		06/04/2018: 40%	
12/05/2014	Ronnie C. Chan	2,750,000	–	2,750,000	$22.60	12/05/2016: 10%	12/04/2024
	Philip N.L. Chen	2,500,000	–	2,500,000		12/05/2017: 20%	
	H.C. Ho	1,850,000	–	1,850,000		12/05/2018: 30%	
	Adriel W. Chan	150,000	–	150,000		12/05/2019: 40%	
08/10/2017	Ronnie C. Chan	–	2,750,000	2,750,000	$19.98	08/10/2019: 10%	08/09/2027
	Philip N.L. Chen	–	2,500,000	2,500,000		08/10/2020: 20%	
	H.C. Ho	–	1,850,000	1,850,000		08/10/2021: 30%	
	Adriel W. Chan	–	1,850,000	1,850,000		08/10/2022: 40%	

Save as disclosed above, none of the Directors of the Board had, as at December 31, 2017, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

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

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2017, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Note	Number of Shares or Underlying Shares Held (Long Position)	% of Number of Issued Shares (Long Position)
Chan Tan Ching Fen	1	2,532,812,340	56.32
Cole Enterprises Holdings (PTC) Limited	1	2,532,812,340	56.32
Merssion Limited	1	2,532,812,340	56.32
Adriel W. Chan	1	2,532,812,340	56.32
Hang Lung Group Limited	2	2,504,479,240	55.69
Prosperland Housing Limited	3	1,267,608,690	30.60
Purotat Limited	3	354,227,500	8.55
First Eagle Investment Management, LLC	4	269,877,183	6.00

Notes

1. These shares were the same parcel of shares held by controlled corporations of Merssion Limited which was held under a trust. As Ms. Chan Tan Ching Fen was the founder, Cole Enterprises Holdings (PTC) Limited was the trustee and Mr. Adriel W. Chan was a discretionary beneficiary of the trust, they were deemed to be interested in such shares under the SFO.

   The controlled corporations included HLGL in which Merssion Limited had 36.61% interests. Accordingly, the 2,504,479,240 shares held by HLGL through its subsidiaries were included in the 2,532,812,340 shares.

2. These shares were held by the wholly-owned subsidiaries of HLGL.

3. These companies were wholly-owned subsidiaries of HLGL. Their interests were included in the 2,504,479,240 shares held by HLGL.

4. These shares were held in the capacity of investment manager.

Save as disclosed above, as at December 31, 2017, no other interests or short positions in the shares or underlying shares of the Company required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

Related Party Transactions

On November 18, 2017, Newhart Investments Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Atlas Limited, a wholly-owned subsidiary of HLGL, to acquire (i) the entire issued share capital of Wentworth Limited; and (ii) the aggregate amount of shareholder's loan owed by Wentworth Limited and its subsidiary to Atlas Limited on a dollar-for-dollar basis, at the total consideration of HK$224,905,351. Completion took place on November 20, 2017. Wentworth Limited was an indirect owner of four workshops on Amoycan Industrial Centre, Block 1. As HLGL is the holding company of the Company, it was a connected transaction subject to disclosure requirements of the Listing Rules. Details of the transaction are set out in the announcement of the Company dated November 20, 2017.

Details of the other significant related party transactions undertaken in the usual course of business are set out in Note 30 to the Financial Statements. Save as disclosed above, none of these related party transactions constitutes a discloseable connected transaction under the Listing Rules.

Management Contracts

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

Purchase, Sale or Redemption of Listed Securities

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

Corporate Governance

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 96 to 121.

Auditor

The consolidated Financial Statements for the year ended December 31, 2017 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.

By Order of the Board
Margaret Ka Man Yan
Company Secretary
Hong Kong, January 30, 2018

Independent Auditor's Report

KPMG

Independent auditor's report to the members of Hang Lung Properties Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hang Lung Properties Limited ("the Company") and its subsidiaries ("the Group") set out on pages 147 to 213, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Valuation of investment properties and investment properties under development

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

The Key Audit Matter	How the matter was addressed in our audit
The aggregate fair values of the Group's investment properties and investment properties under development as at December 31, 2017 amounted to HK$156,036 million, representing 85% of the Group's total assets as at that date. The net increase in fair values recorded in the consolidated statement of profit or loss for the year ended December 31, 2017 amounted to HK$2,599 million. The Group's investment properties, which are located in Hong Kong and Mainland China, comprise shopping malls, office premises, industrial premises, residential premises and car parking bays. The fair values of the Group's investment properties and investment properties under development were assessed by management based on independent valuations prepared by an external property valuer. We identified valuation of the Group's investment properties and investment properties under development as a key audit matter because of the significance of investment properties and investment properties under development to the Group's consolidated financial statements and because the determination of the fair values involves significant judgement and estimation, including selecting the appropriate valuation methodology, capitalisation rates and market rents and, for investment properties under development, an estimation of costs to complete each property development project.	Our audit procedures to assess the valuation of investment properties and investment properties under development included the following: • assessing the competence, capability, experience of the locations and types of properties subject to valuation, independence and objectivity of the external property valuer; • evaluating the valuation methodology used by the external property valuer based on our knowledge of other property valuers for similar types of properties; • on a sample basis, comparing the tenancy information included in the valuation models, which included committed rents and occupancy rates, with underlying contracts and related documentation; • discussing the valuations with the external property valuer in a separate private session and challenging key estimates adopted in the valuations, including those relating to market selling prices, market rents and capitalisation rates, by comparing them with historical rates and available market data, taking into consideration comparability and other local market factors, with the assistance of our internal property valuation specialists; and • for investment properties under development, comparing the estimated construction costs to complete each property development project with the Group's updated budgets (see further details set out in the key audit matter below).

Assessing the development costs of investment properties under development in Mainland China	
(Refer to note 11 (property, plant and equipment) and note 1(f) (accounting policy))	
The Key Audit Matter	**How the matter was addressed in our audit**
The fair value of the Group's investment properties under development is determined using the direct comparison valuation methodology, with reference to comparable market transactions, to derive the fair value of the property assuming it was completed and, where appropriate, after deducting (1) the estimated development costs to be expended to complete each property development project and (2) the estimated profit margin. Therefore, any increase in the estimated development costs to be expended to complete each property development project compared with the original management approved budgets could have a significant negative impact on the fair value of the Group's investment properties under development and, hence, the results for the year. The Group's investment properties under development, which are located in different cities in Mainland China, comprise shopping malls, office premises and residential premises. We identified the assessing the development costs of the Group's investment properties under development as a key audit matter because the determination of estimated development costs involves significant management judgement and estimation, in particular in relation to project feasibility studies, estimating future development costs to be expended to complete each property development project and the estimated profit margin.	Our audit procedures to assess the development costs of investment properties under development in Mainland China included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over the preparation and monitoring of management budgets and forecasts of construction costs for each investment property under development; • discussing the valuations of investment properties under development with the external property valuer in a separate private session and challenging key estimates adopted in the valuations including those relating to market selling prices, by comparing them with available market data, taking into consideration comparability and other local market factors; • performing a retrospective review for all investment properties under development by comparing the actual construction costs incurred during the current year with those included in the prior year's forecasts in order to assess the accuracy of the Group's budgeting process; • conducting site visits to all investment properties under development and discussing with management and the in-house quantity surveyor the development progress and the development budgets reflected in the latest forecasts for each property development project; and • comparing, on a sample basis, the quantity surveyor's reports for the construction costs incurred for property development projects with the underlying payment records and other documentation relevant to the construction cost accruals and/or payments.

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained all of the other information prior to the date of this auditor's report apart from "Chairman's Letter to Shareholders". The remaining information is expected to be made available to us after that date.

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

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

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

Responsibilities of directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Melissa M C Wu.

KPMG
Certified Public Accountants

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

January 30, 2018

Financial Statements

Consolidated Statement of Profit or Loss

For the year ended December 31, 2017

	Note	2017 HK$ Million	2016 HK$ Million	*For information purpose only* 2017 RMB Million	2016 RMB Million
Revenue	3(a)	**11,199**	13,059	**9,735**	11,239
Direct costs and operating expenses		**(3,289)**	(4,140)	**(2,856)**	(3,563)
Gross profit		**7,910**	8,919	**6,879**	7,676
Other net income	4	**549**	208	**471**	179
Administrative expenses		**(580)**	(607)	**(503)**	(522)
Operating profit before changes in fair value of properties		**7,879**	8,520	**6,847**	7,333
Net increase/(decrease) in fair value of properties	11	**2,599**	(286)	**2,194**	(254)
Operating profit after changes in fair value of properties		**10,478**	8,234	**9,041**	7,079
Interest income		**548**	794	**477**	679
Finance costs		**(1,202)**	(1,111)	**(1,043)**	(952)
Net interest expense	5	**(654)**	(317)	**(566)**	(273)
Share of profits of joint ventures	12	**78**	62	**68**	53
Profit before taxation	3(a) & 6	**9,902**	7,979	**8,543**	6,859
Taxation	8(a)	**(1,352)**	(1,372)	**(1,176)**	(1,175)
Profit for the year		**8,550**	6,607	**7,367**	5,684
Attributable to:					
Shareholders	23	**8,124**	6,195	**6,998**	5,331
Non-controlling interests	24	**426**	412	**369**	353
		8,550	6,607	**7,367**	5,684
Earnings per share	10(a)				
Basic		**HK$1.81**	HK$1.38	**RMB1.56**	RMB1.19
Diluted		**HK$1.81**	HK$1.38	**RMB1.56**	RMB1.19

The accompanying notes form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2017

	Note	2017 HK$ Million	2016 HK$ Million	For information purpose only 2017 RMB Million	For information purpose only 2016 RMB Million
Profit for the year		**8,550**	6,607	**7,367**	5,684
Other comprehensive income	8(d)				
Items that are or may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign subsidiaries/ to presentation currency		**5,206**	(5,762)	**(3,718)**	2,216
Movement in hedging reserve:					
Effective portion of changes in fair value		**(86)**	–	**(77)**	–
Net amount transferred to profit or loss		**(48)**	–	**(42)**	–
		5,072	(5,762)	**(3,837)**	2,216
Total comprehensive income for the year		**13,622**	845	**3,530**	7,900
Total comprehensive income attributable to:					
Shareholders		**12,803**	839	**3,162**	7,572
Non-controlling interests		**819**	6	**368**	328
		13,622	845	**3,530**	7,900

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

At December 31, 2017

	Note	2017 HK$ Million	2016 HK$ Million	2017 RMB Million	2016 RMB Million
				For information purpose only	
Non-current assets					
Property, plant and equipment					
Investment properties		**134,444**	125,421	**112,374**	112,419
Investment properties under development		**21,592**	17,282	**18,049**	15,459
Other property, plant and equipment		**220**	327	**184**	293
	11	**156,256**	143,030	**130,607**	128,171
Interest in joint ventures	12	**1,277**	1,249	**1,067**	1,122
Other assets	13	**85**	2	**71**	2
Deposits with banks	14	**3,705**	–	**3,097**	–
Deferred tax assets	21(b)	**–**	10	**–**	9
		161,323	144,291	**134,842**	129,304
Current assets					
Cash and deposits with banks	14	**18,401**	24,325	**15,379**	21,832
Trade and other receivables	15	**2,036**	3,939	**1,702**	3,535
Properties for sale	16	**1,612**	2,352	**1,347**	2,113
Assets held for sale	17	**214**	–	**179**	–
		22,263	30,616	**18,607**	27,480
Current liabilities					
Bank loans and other borrowings	18	**2,112**	568	**1,765**	508
Trade and other payables	19	**6,673**	6,327	**5,579**	5,669
Finance lease obligations	20	**19**	–	**16**	–
Taxation payable	21(a)	**483**	932	**404**	836
Liabilities directly associated with the assets held for sale	17	**2**	–	**2**	–
		9,289	7,827	**7,766**	7,013
Net current assets		**12,974**	22,789	**10,841**	20,467
Total assets less current liabilities		**174,297**	167,080	**145,683**	149,771
Non-current liabilities					
Bank loans and other borrowings	18	**22,708**	26,514	**18,980**	23,783
Finance lease obligations	20	**319**	–	**267**	–
Deferred tax liabilities	21(b)	**9,025**	8,421	**7,527**	7,534
		32,052	34,935	**26,774**	31,317
NET ASSETS		**142,245**	132,145	**118,909**	118,454

Consolidated Statement of Financial Position

At December 31, 2017

	Note	2017 HK$ Million	2016 HK$ Million	*For information purpose only* 2017 RMB Million	2016 RMB Million
Capital and reserves					
Share capital	22	**39,912**	39,912	**37,431**	37,431
Reserves	23	**96,246**	86,653	**76,390**	76,032
Shareholders' equity		**136,158**	126,565	**113,821**	113,463
Non-controlling interests	24	**6,087**	5,580	**5,088**	4,991
TOTAL EQUITY		**142,245**	132,145	**118,909**	118,454

Philip N.L. Chen
Chief Executive Officer

H.C. Ho
Chief Financial Officer

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

in HK$ Million	Shareholders' equity: Share capital (Note 22)	Shareholders' equity: Other reserves (Note 23)	Shareholders' equity: Retained profits (Note 23)	Shareholders' equity: Total	Non-controlling interests (Note 24)	Total equity
At January 1, 2016	39,903	2,849	86,237	128,989	5,903	134,892
Profit for the year	–	–	6,195	6,195	412	6,607
Exchange difference arising from translation of foreign subsidiaries	–	(5,356)	–	(5,356)	(406)	(5,762)
Total comprehensive income for the year	–	(5,356)	6,195	839	6	845
Final dividend in respect of previous year	–	–	(2,608)	(2,608)	–	(2,608)
Interim dividend in respect of current year	–	–	(765)	(765)	–	(765)
Issue of shares	9	(2)	–	7	–	7
Employee share-based payments	–	70	33	103	–	103
Dividends paid to non-controlling interests	–	–	–	–	(329)	(329)
At December 31, 2016, as previously reported	39,912	(2,439)	89,092	126,565	5,580	132,145
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	**–**	**85**	**–**	**85**	**–**	**85**
At January 1, 2017, restated	**39,912**	**(2,354)**	**89,092**	**126,650**	**5,580**	**132,230**
Profit for the year	**–**	**–**	**8,124**	**8,124**	**426**	**8,550**
Exchange difference arising from translation of foreign subsidiaries	**–**	**4,813**	**–**	**4,813**	**393**	**5,206**
Cash flow hedges: net movement in hedging reserve	**–**	**(134)**	**–**	**(134)**	**–**	**(134)**
Total comprehensive income for the year	**–**	**4,679**	**8,124**	**12,803**	**819**	**13,622**
Final dividend in respect of previous year	**–**	**–**	**(2,608)**	**(2,608)**	**–**	**(2,608)**
Interim dividend in respect of current year	**–**	**–**	**(765)**	**(765)**	**–**	**(765)**
Employee share-based payments	**–**	**(74)**	**152**	**78**	**–**	**78**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(312)**	**(312)**
At December 31, 2017	**39,912**	**2,251**	**93,995**	**136,158**	**6,087**	**142,245**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

For information purpose only

in RMB Million	Shareholders' equity: Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
At January 1, 2016	37,423	(786)	72,017	108,654	4,945	113,599
Profit for the year	–	–	5,331	5,331	353	5,684
Exchange difference arising from translation to presentation currency	–	2,241	–	2,241	(25)	2,216
Total comprehensive income for the year	–	2,241	5,331	7,572	328	7,900
Final dividend in respect of previous year	–	–	(2,199)	(2,199)	–	(2,199)
Interim dividend in respect of current year	–	–	(659)	(659)	–	(659)
Issue of shares	8	(2)	–	6	–	6
Employee share-based payments	–	60	29	89	–	89
Dividends paid to non-controlling interests	–	–	–	–	(282)	(282)
At December 31, 2016, as previously reported	37,431	1,513	74,519	113,463	4,991	118,454
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	**–**	**76**	**–**	**76**	**–**	**76**
At January 1, 2017, restated	**37,431**	**1,589**	**74,519**	**113,539**	**4,991**	**118,530**
Profit for the year	**–**	**–**	**6,998**	**6,998**	**369**	**7,367**
Exchange difference arising from translation to presentation currency	**–**	**(3,717)**	**–**	**(3,717)**	**(1)**	**(3,718)**
Cash flow hedges: net movement in hedging reserve	**–**	**(119)**	**–**	**(119)**	**–**	**(119)**
Total comprehensive income for the year	**–**	**(3,836)**	**6,998**	**3,162**	**368**	**3,530**
Final dividend in respect of previous year	**–**	**–**	**(2,305)**	**(2,305)**	**–**	**(2,305)**
Interim dividend in respect of current year	**–**	**–**	**(643)**	**(643)**	**–**	**(643)**
Employee share-based payments	**–**	**(61)**	**129**	**68**	**–**	**68**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(271)**	**(271)**
At December 31, 2017	**37,431**	**(2,308)**	**78,698**	**113,821**	**5,088**	**118,909**

Consolidated Cash Flow Statement

For the year ended December 31, 2017

	Note	2017 HK$ Million	2016 HK$ Million	2017 RMB Million	2016 RMB Million
				For information purpose only	
Operating activities					
Cash generated from operations	25	**10,333**	7,737	**8,962**	6,616
Tax paid					
Hong Kong Profits Tax paid		**(1,080)**	(404)	**(935)**	(346)
Mainland China Income Tax paid		**(696)**	(598)	**(601)**	(509)
Net cash generated from operating activities		**8,557**	6,735	**7,426**	5,761
Investing activities					
Payment for property, plant and equipment		**(4,776)**	(2,677)	**(4,138)**	(2,350)
— purchase		**(4,160)**	(2,677)	**(3,601)**	(2,350)
— acquisition of subsidiaries	26	**(616)**	–	**(537)**	–
Net sale proceeds from disposal of property, plant and equipment		**560**	11	**485**	9
Interest received		**518**	839	**452**	717
Dividends received from joint ventures		**50**	54	**43**	47
Repayment of advances to unlisted investee companies		**2**	2	**2**	1
(Increase)/Decrease in bank deposits with maturity greater than 3 months		**(10,677)**	3,384	**(9,249)**	2,902
Net cash (used in)/generated from investing activities		**(14,323)**	1,613	**(12,405)**	1,326
Financing activities					
Proceeds from new bank loans and other borrowings	27	**1,234**	2,042	**1,069**	1,722
Repayment of bank loans	27	**(4,479)**	(7,093)	**(3,880)**	(6,347)
Proceeds from exercise of share options		**–**	7	**–**	6
Interest and other borrowing costs paid		**(1,157)**	(1,287)	**(1,007)**	(1,102)
Dividends paid		**(3,373)**	(3,373)	**(2,948)**	(2,858)
Dividends paid to non-controlling interests		**(312)**	(329)	**(271)**	(282)
Net cash used in financing activities		**(8,087)**	(10,033)	**(7,037)**	(8,861)
Decrease in cash and cash equivalents		**(13,853)**	(1,685)	**(12,016)**	(1,774)
Effect of foreign exchange rate changes		**847**	(1,806)	**(300)**	70
Cash and cash equivalents at January 1		**23,379**	26,870	**20,986**	22,690
Cash and cash equivalents at December 31	14	**10,373**	23,379	**8,670**	20,986

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1 Significant Accounting Policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared according to note 1(u) as if the presentation currency is Renminbi.

1 Significant Accounting Policies (Continued)

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

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

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

1 Significant Accounting Policies (Continued)

(d) Joint ventures

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

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

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

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

(e) Goodwill

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

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

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

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

1 Significant Accounting Policies (Continued)

(f) Properties

1. Investment properties and investment properties under development

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

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

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(g).

2. Properties under development for sale

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

3. Completed properties for sale

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

1 Significant Accounting Policies (Continued)

(g) Other property, plant and equipment

1. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 1(k)). Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

2. *Leased assets*

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

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

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred substantially all the risks and benefits of ownership are classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and is accounted for as if held under a finance lease; and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

1 Significant Accounting Policies (Continued)

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

2. Leased assets (Continued)

(iii) Operating leases charges

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

(h) Depreciation

1. Investment properties

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

2. Other property, plant and equipment

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

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

(i) Investments in equity securities

Policy applicable on or before December 31, 2016

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

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

1 Significant Accounting Policies (Continued)

(i) Investments in equity securities (Continued)

Policy applicable from January 1, 2017

Investments in equity instruments are classified and measured at fair value through profit or loss (i.e. FVTPL) except when the equity investment is not held for trading and an election is made to present the fair value changes in other comprehensive income (i.e. FVTOCI). This election is made on an investment-by-investment basis on initial recognition and is irrevocable. The gains or losses (both on subsequent measurement and derecognition) of investments that are measured at FVTPL are recognized in profit or loss. If the equity investment is designated as at FVTOCI, all gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, except for dividend income that is generally recognized in profit or loss in accordance with HKAS 18, *Revenue*.

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

(j) Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability or a highly probable forecast transaction, the effective portion of changes in fair value of the hedging instruments is recognized in other comprehensive income and accumulated in a hedging reserve as a separate component of equity. Any ineffective portion of changes in fair value is recognized immediately in profit or loss. The associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

(k) Impairment of assets

— The following policy applies to property, plant and equipment other than investment properties and investment properties under development, investments in joint ventures, goodwill and investments in subsidiaries in the Company's statement of financial position. For such assets, an assessment is carried out at the end of each reporting period to determine whether there is objective evidence these assets are impaired. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. The recoverable amount is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in profit or loss if the carrying amount exceeds the recoverable amount. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized. An impairment loss in respect of goodwill is not reversed.

1 Significant Accounting Policies (Continued)

(k) Impairment of assets (Continued)

Policy applicable on or before December 31, 2016

An assessment is carried out at the end of each reporting period to determine whether there is objective evidence that the below assets are impaired.

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

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

Impairment losses for receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

— For unquoted equity investments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity investments carried at cost are not reversed.

1 Significant Accounting Policies (Continued)

(k) Impairment of assets (Continued)

Policy applicable from January 1, 2017

— For trade and other receivables, the allowance for impairment is measured at an amount equal to lifetime expected credit losses, except for other receivables on which the credit risk has not increased significantly since their initial recognition, where the loss allowance is measured as 12-month expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive), unless the trade and other receivables are credit-impaired at the end of the reporting period where expected credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows.

At the end of each reporting period, the Group assesses whether trade and other receivables are credit-impaired (i.e. when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred, such as significant financial difficulty of the debtor).

The allowance for expected credit losses is presented in the statement of financial position as a deduction from the gross carrying amount of the assets. The adjustment to the allowance for credit losses is recognized in profit or loss, as an impairment or reversal of impairment.

Trade and other receivables are written off when there is no realistic prospect of recovery.

— For equity investments, no impairment loss is recognized.

— For financial guarantee contracts, impairment is recognized as a provision (note 1(r)) and is measured at the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (note 1(k)), except where the receivables are interest-free loans without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (note 1(k)).

1 Significant Accounting Policies (Continued)

(m) Cash and cash equivalents

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

(n) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell, except that financial assets, deferred tax assets and investment properties continue to be measured in accordance with the Group's accounting policies.

(o) Trade and other payables

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

(p) Interest-bearing borrowings

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

(q) Borrowing costs

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

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

1 Significant Accounting Policies (Continued)

(r) Financial guarantees issued, provisions and contingent liabilities

1. Financial guarantees issued

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

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

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Subsequently, they are measured at:

Policy applicable on or before December 31, 2016

— the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Policy applicable from January 1, 2017

— the higher of this amortized amount and the amount of loss allowance (note 1(k)).

2. Other provisions and contingent liabilities

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

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

1 Significant Accounting Policies (Continued)

(s) Revenue recognition

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

1. *Sale of properties*

   Revenue from sale of completed properties is recognized upon the later of the signing of sale and purchase agreements or the issue of occupation permit by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer.

2. *Rental income*

   Rental income under operating leases is recognized on a straight line basis over the terms of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

3. *Interest income*

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

4. *Dividends*

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

(t) Taxation

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

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

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

1 Significant Accounting Policies (Continued)

(t) Taxation (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profits, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

When investment properties and investment properties under development are carried at their fair value in accordance with the accounting policy set out in note 1(f)(1), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

1 Significant Accounting Policies (Continued)

(u) Translation of foreign currencies

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

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

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

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

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

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

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

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

1 Significant Accounting Policies (Continued)

(v) Related parties

1. A person, or a close member of that person's family, is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

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

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

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

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

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

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

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

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

1 Significant Accounting Policies (Continued)

(w) Segment reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations. For disclosure purpose, a reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics and nature of the regulatory environment, or single operating segments which are disclosable separately because they cannot be aggregated or they exceed quantitative thresholds.

(x) Employee benefits

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

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

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

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

2 Changes in Accounting Policies

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the early adoption of the complete version of HKFRS 9, *Financial Instruments*.

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 9 are summarized below.

Classification of financial assets and financial liabilities

HKFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). HKFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing HKAS 39, *Financial Instruments: Recognition and Measurement*, categories of held-to-maturity, loans and receivables and available-for-sale.

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification of financial liabilities.

Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. The new impairment model also applies to certain financial guarantee contracts but not to equity investments.

Transition

The date of initial application of HKFRS 9 was January 1, 2017 (i.e. the date on which the Group has reassessed the classification of its financial assets in accordance with the requirement of HKFRS 9). The classification is based on the facts and circumstances as of January 1, 2017. Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from adoption of HKFRS 9 are recognized in the opening balances of equity as of January 1, 2017. HKFRS 9 does not apply to items that have already been derecognized at date of initial application. Other than the changes in classification and measurement of certain financial assets as described below, the changes in accounting policies had no material financial impact on the amounts recognized on the consolidated statement of financial position of the Group as of January 1, 2017.

2 Changes in Accounting Policies (Continued)

Impact of initial application

It was concluded that the Group's investments in equity securities previously classified as available-for-sale investments under HKAS 39 are not held for trading, but held for medium or long-term strategic purpose. Therefore, those investments in equity securities are designated as at FVTOCI under HKFRS 9 as the directors believe that this provides a more meaningful presentation than reflecting changes in fair value in profit or loss.

The Group's equity investments of HK$100 which were previously classified as available-for-sale investments and measured at cost less impairment under HKAS 39 have been designated as at FVTOCI. The estimated fair value of these equity investments was HK$85 million as of January 1, 2017. Consequently, the opening balance of the Group's other reserves as of January 1, 2017 was impacted.

Other than the change in the classification of equity investments, the classification of financial assets and liabilities remained unchanged.

3 Revenue and Segment Information

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

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

Management evaluates performance primarily based on profit before taxation.

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

3 Revenue and Segment Information (Continued)

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2017 **HK$ Million**	2016 HK$ Million	**2017** **HK$ Million**	2016 HK$ Million
Segment				
Property leasing				
— Mainland China	**3,958**	3,995	**2,454**	2,514
— Hong Kong	**3,821**	3,742	**3,218**	3,196
	7,779	7,737	**5,672**	5,710
Property sales				
— Hong Kong	**3,420**	5,322	**2,238**	3,209
Segment total	**11,199**	13,059	**7,910**	8,919
Other net income			**549**	208
Administrative expenses			**(580)**	(607)
Operating profit before changes in fair value of properties			**7,879**	8,520
Net increase/(decrease) in fair value of properties			**2,599**	(286)
— property leasing in Hong Kong			**2,855**	183
— property leasing in mainland China			**(256)**	(809)
— upon transfer from completed properties for sale to investment properties			**–**	340
Net interest expense			**(654)**	(317)
— interest income			**548**	794
— finance costs			**(1,202)**	(1,111)
Share of profits of joint ventures			**78**	62
Profit before taxation			**9,902**	7,979

3 Revenue and Segment Information (Continued)

(b) Total assets by segments

	Total assets	
	2017 **HK$ Million**	2016 HK$ Million
Segment		
Property leasing		
— Mainland China	**95,414**	85,542
— Hong Kong	**62,361**	58,830
	157,775	144,372
Property sales		
— Hong Kong	**2,129**	4,949
Segment total	**159,904**	149,321
Interest in joint ventures	**1,277**	1,249
Other assets	**85**	2
Deferred tax assets	**–**	10
Cash and deposits with banks	**22,106**	24,325
Assets held for sale	**214**	–
Total assets	**183,586**	174,907

4 Other Net Income

	2017 **HK$ Million**	2016 HK$ Million
Gain on disposal of investment properties	**464**	8
Fair value gain on derivative financial instruments (Note)	**–**	203
Ineffectiveness on cash flow hedges (Note)	**(5)**	–
Net exchange gain/(loss)	**89**	(3)
Others	**1**	–
	549	208

Note: The Group entered into USD/HKD cross currency swaps for the purpose of fixing the exchange rate for the USD-denominated Medium Term Notes. Starting from January 1, 2017, the Group has designated the cross currency swaps as the hedging instruments in cash flow hedges.

5 Net Interest Expense

	2017 HK$ Million	2016 HK$ Million
Interest income on bank deposits	**548**	794
Interest expense on bank loans and other borrowings	**1,164**	1,262
Finance charges on finance leases obligations	**8**	–
Other borrowing costs	**86**	72
Total borrowing costs	**1,258**	1,334
Less: Borrowing costs capitalized (Note)	**(56)**	(223)
Finance costs	**1,202**	1,111
Net interest expense	**(654)**	(317)

Note: The borrowing costs have been capitalized at an average rate of 4.8% (2016: 4.3%) per annum to properties under development.

6 Profit before Taxation

	2017 HK$ Million	2016 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**938**	1,815
Staff costs, including employee share-based payments of HK$78 million (2016: HK$103 million)	**1,427**	1,374
Depreciation	**43**	53
Auditors' remuneration		
— audit services	**9**	8
— non-audit services	**5**	4
and after crediting:		
Gross rental income from investment properties less direct outgoings of HK$2,107 million (2016: HK$2,027 million), including contingent rentals of HK$381 million (2016: HK$318 million)	**5,672**	5,710

7 Emoluments of Directors and Senior Management

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

(a) Directors' emoluments

Details of directors' emoluments are summarized below:

Name	Fees HK$ Million	Salaries, allowances and benefits in kind HK$ Million	Discretionary bonuses HK$ Million	Group's contributions to retirement scheme HK$ Million	2017 HK$ Million	2016 HK$ Million
Executive Directors						
Ronnie C. Chan	0.9	26.1	9.0	2.6	38.6	37.7
Philip N.L. Chen	0.7	24.5	9.0	1.8	36.0	35.3
H.C. Ho	0.7	5.0	3.6	0.4	9.7	9.5
Adriel W. Chan (Appointed on November 19, 2016)	0.7	4.6	3.0	0.3	8.6	0.7
Independent Non-Executive Directors						
Ronald J. Arculli	0.9	–	–	–	0.9	0.8
Dominic C.F. Ho	1.1	–	–	–	1.1	1.0
Nelson W.L. Yuen	0.7	–	–	–	0.7	0.7
Andrew K.C. Chan	0.9	–	–	–	0.9	0.8
H.K. Chang	1.0	–	–	–	1.0	1.0
Anita Y.M. Fung	0.9	–	–	–	0.9	0.8
Ex-Director						
P.W. Liu (Retired on April 28, 2016)	–	–	–	–	–	0.2
2017	8.5	60.2	24.6	5.1	98.4	88.5
2016	7.7	54.4	21.7	4.7	88.5	

7 Emoluments of Directors and Senior Management (Continued)

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2016: three) are existing directors of the Company and the emoluments in respect of the remaining one (2016: two) individual are as follows:

	2017 HK$ Million	2016 HK$ Million
Salaries, allowances and benefits in kind	**5.3**	9.0
Discretionary bonuses	**2.1**	2.7
Group's contributions to retirement scheme	**0.2**	0.4
	7.6	12.1

The emoluments of the above one (2016: two) individual are within the following bands:

	Number of individuals	
	2017	2016
HK$4,500,001 — HK$5,000,000	**–**	1
HK$7,000,001 — HK$7,500,000	**–**	1
HK$7,500,001 — HK$8,000,000	**1**	–
	1	2

(c) In addition to the above emoluments, certain directors of the Company were granted share options under the share option schemes of the Company. Details of which are disclosed in note 29(b).

8 Taxation in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	2017 **HK$ Million**	2016 HK$ Million
Current tax		
Hong Kong Profits Tax	**715**	860
Under/(Over)-provision in prior years	**1**	(10)
	716	850
Mainland China Income Tax	**588**	602
	1,304	1,452
Deferred tax		
Changes in fair value of properties	**(1)**	(148)
Other origination and reversal of temporary differences	**49**	68
Total (Note 21(b))	**48**	(80)
Total income tax expense	**1,352**	1,372

Provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year. Mainland China Income Tax mainly represents mainland China Corporate Income Tax calculated at 25% (2016: 25%) and mainland China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

(b) Share of joint ventures' taxation for the year ended December 31, 2017 of HK$10 million (2016: HK$12 million) is included in the share of profits of joint ventures.

8 Taxation in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

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

	2017 **HK$ Million**	2016 HK$ Million
Profit before taxation	**9,902**	7,979
Notional tax on profit before taxation at applicable rates	**1,778**	1,424
Tax effect of non-taxable income	**(590)**	(169)
Tax effect of non-deductible expenses	**41**	74
Tax effect of tax losses utilized and other deductible temporary differences	**(125)**	(108)
Tax effect of unrecognized tax losses	**247**	161
Under/(Over)-provision in prior years	**1**	(10)
Actual tax expense	**1,352**	1,372

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

9 Dividends

(a) Dividends attributable to the year

	2017 **HK$ Million**	2016 HK$ Million
Interim dividend declared and paid of HK17 cents (2016: HK17 cents) per share	**765**	765
Final dividend of HK58 cents (2016: HK58 cents) per share proposed after the end of the reporting period	**2,608**	2,608
	3,373	3,373

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

(b) The final dividend of HK$2,608 million (calculated based on HK58 cents per share and the total number of issued shares as of the dividend pay-out date) for the year ended December 31, 2016 was approved and paid in the year ended December 31, 2017 (2016: HK$2,608 million).

10 Earnings Per Share

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

	2017 **HK$ Million**	2016 HK$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	**8,124**	6,195

	Number of shares	
	2017 **Million**	2016 Million
Weighted average number of shares used in calculating basic earnings per share	**4,498**	4,497
Effect of dilutive potential shares — share options	**1**	–
Weighted average number of shares used in calculating diluted earnings per share	**4,499**	4,497

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

	2017 **HK$ Million**	2016 HK$ Million
Net profit attributable to shareholders	**8,124**	6,195
Effect of changes in fair value of properties	**(2,599)**	286
Effect of corresponding deferred tax	**(1)**	(148)
Effect of changes in fair value of investment properties of joint ventures	**(25)**	(1)
	(2,625)	137
Non-controlling interests	**31**	9
	(2,594)	146
Underlying net profit attributable to shareholders	**5,530**	6,341

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

	2017	2016
Basic	**HK$1.23**	HK$1.41
Diluted	**HK$1.23**	HK$1.41

11 Property, Plant and Equipment

	Investment properties HK$ Million	Investment properties under development HK$ Million	Others HK$ Million	Total HK$ Million
Cost or valuation:				
At January 1, 2016	129,425	16,709	578	146,712
Exchange adjustment	(4,554)	(1,060)	(17)	(5,631)
Additions	837	1,633	55	2,525
Disposals	(3)	–	(8)	(11)
Net decrease in fair value	(626)	–	–	(626)
Transfer from properties for sale (Note 16)	342	–	–	342
At December 31, 2016 and January 1, 2017	125,421	17,282	608	143,311
Exchange adjustment	**4,702**	**1,204**	**22**	**5,928**
Additions	**1,323**	**3,106**	**–**	**4,429**
Acquisition of subsidiaries (Note 26)	**616**	**–**	**–**	**616**
Disposals	**(4)**	**–**	**(83)**	**(87)**
Net increase in fair value	**2,599**	**–**	**–**	**2,599**
Transfer to assets held for sale (Note 17)	**(213)**	**–**	**–**	**(213)**
At December 31, 2017	**134,444**	**21,592**	**547**	**156,583**
Accumulated depreciation:				
At January 1, 2016	–	–	242	242
Exchange adjustment	–	–	(7)	(7)
Charge for the year	–	–	53	53
Written back on disposals	–	–	(7)	(7)
At December 31, 2016 and January 1, 2017	–	–	281	281
Exchange adjustment	**–**	**–**	**10**	**10**
Charge for the year	**–**	**–**	**43**	**43**
Written back on disposals	**–**	**–**	**(7)**	**(7)**
At December 31, 2017	**–**	**–**	**327**	**327**
Net book value:				
At December 31, 2017	**134,444**	**21,592**	**220**	**156,256**
At December 31, 2016	125,421	17,282	327	143,030

Cost or valuation of the property, plant and equipment is made up as follows:

	Investment properties HK$ Million	Investment properties under development HK$ Million	Others HK$ Million	Total HK$ Million
December 31, 2017				
Valuation	**134,444**	**21,592**	**–**	**156,036**
Cost	**–**	**–**	**547**	**547**
	134,444	**21,592**	**547**	**156,583**
December 31, 2016				
Valuation	125,421	17,282	–	142,703
Cost	–	–	608	608
	125,421	17,282	608	143,311

11 Property, Plant and Equipment (Continued)

(a) Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

— Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value measurement at December 31, 2017		
	Level 1 HK$ Million	**Level 2 HK$ Million**	**Level 3 HK$ Million**
Investment properties	**–**	**134,444**	**–**
Investment properties under development	**–**	**–**	**21,592**

	Fair value measurement at December 31, 2016		
	Level 1 HK$ Million	Level 2 HK$ Million	Level 3 HK$ Million
Investment properties	–	125,421	–
Investment properties under development	–	–	17,282

The Group's policy is to recognize transfers between levels of fair value hierarchy at the time at which they occur. During the year, there were no transfers between levels of fair value hierarchy (2016: Nil).

The Group's investment properties and investment properties under development were revalued as of December 31, 2017 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis. Management has discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

11 Property, Plant and Equipment (Continued)

(a) Fair value measurement of properties (Continued)

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

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

(iii) Information about Level 3 fair value measurements

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

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

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

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

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

The total estimated development costs of each of the Group's investment properties under development ranged from HK$1.8 billion to HK$18.1 billion (2016: HK$1.7 billion to HK$16.9 billion). The estimates are largely consistent with the budgets developed internally by the Group based on management experience and knowledge of market conditions.

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

	Investment properties under development – Mainland China	
	2017 **HK$ Million**	2016 HK$ Million
At January 1	**17,282**	16,709
Exchange adjustment	**1,204**	(1,060)
Additions	**3,106**	1,633
Increase in fair value	**–**	–
At December 31	**21,592**	17,282
Total gain for the year included in profit or loss	**–**	–

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

11 Property, Plant and Equipment (Continued)

(b) An analysis of net book value of investment properties and investment properties under development is as follows:

	Investment properties		Investment properties under development	
	2017 **HK$ Million**	2016 HK$ Million	**2017** **HK$ Million**	2016 HK$ Million
In Hong Kong				
— long-term leases (over 50 years)	**40,034**	38,328	**–**	–
— medium-term leases (10 to 50 years)	**21,847**	19,986	**–**	–
Outside Hong Kong				
— long-term leases (over 50 years)	**–**	–	**923**	798
— medium-term leases (10 to 50 years)	**72,563**	67,107	**20,669**	16,484
	134,444	125,421	**21,592**	17,282

(c) The net book value of other property, plant and equipment of the Group included long-term leases of HK$14 million (2016: HK$13 million) in respect of land and building held in Hong Kong, medium-term leases of HK$6 million (2016: HK$5 million) and long-term leases of HK$37 million (2016: HK$37 million) in respect of land and buildings held outside Hong Kong respectively.

(d) The net book value of investment properties of the Group includes an amount of HK$513 million (2016: Nil) in respect of an asset held under a finance lease.

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

Total future minimum lease payments receivable under non-cancellable operating leases in respect of investment properties are as follows:

	2017 **HK$ Million**	2016 HK$ Million
Within 1 year	**5,328**	5,167
After 1 year but within 5 years	**7,096**	6,727
After 5 years	**710**	602
	13,134	12,496

12 Interest in Joint Ventures

	2017 HK$ Million	2016 HK$ Million
Share of net assets	**1,277**	1,249

Details of joint ventures are set out in note 39. The aggregate financial information related to the Group's share of joint ventures that are not individually material are as follows:

	2017 HK$ Million	2016 HK$ Million
Non-current assets	**1,306**	1,280
Current assets	**5**	12
Non-current liabilities	**(8)**	(8)
Current liabilities	**(26)**	(35)
Net assets	**1,277**	1,249

	2017 HK$ Million	2016 HK$ Million
Revenue	**74**	83
Profit and total comprehensive income for the year	**78**	62

13 Other Assets

	2017 HK$ Million	2016 HK$ Million
Investments in unlisted equity instruments at FVTOCI	**85**	–
Advances to unlisted investee companies	**–**	2
	85	2

At January 1, 2017, the Group designated all investments in unlisted equity instruments as at FVTOCI. In 2016, these investments were classified as available-for-sale and measured at cost. The FVTOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

These investments comprise the following individual investment:

	2017 HK$ Million	2016 HK$ Million
Investment in Ever Light Limited	**85**	–

14 Cash and Deposits With Banks

	2017 HK$ Million	2016 HK$ Million
Cash at banks	1,389	1,609
Time deposits recoverable within 1 year	17,012	22,716
	18,401	24,325
Time deposits recoverable after 1 year	3,705	–
Cash and deposits with banks in the consolidated statement of financial position	22,106	24,325
Less: Bank deposits with maturity greater than 3 months	(11,733)	(946)
Cash and cash equivalents in the consolidated cash flow statement	10,373	23,379

During the year, the Group's cash and deposits with banks were interest-bearing at an average rate of 2.4% (2016: 2.9%) per annum. The currencies of cash and deposits with banks at the year end date were as follows:

	2017 HK$ Million	2016 HK$ Million
Hong Kong Dollars	12,761	2,821
Hong Kong Dollars equivalent of:		
Renminbi	9,341	21,499
United States Dollars	4	5
	22,106	24,325

14 Cash and Deposits With Banks (Continued)

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

	2017 HK$ Million	2016 HK$ Million
Bank loans and other borrowings (Note 18)	**24,820**	27,082
Less: Cash and deposits	**(22,106)**	(24,325)
Net Debt	**2,714**	2,757

15 Trade and Other Receivables

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

	2017 HK$ Million	2016 HK$ Million
Not past due or less than 1 month past due (Note)	**510**	2,621
1 – 3 months past due	**6**	21
More than 3 months past due	**3**	12
	519	2,654

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

The allowance for expected credit losses is insignificant. The details on the Group's credit policy are set out in note 31(c).

(b) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$299 million (2016: HK$279 million).

16 Properties for Sale

	2017 HK$ Million	2016 HK$ Million
Completed properties for sale located in Hong Kong		
— long-term leases (over 50 years)	**1,557**	1,658
— medium-term leases (10 to 50 years)	**55**	694
	1,612	2,352

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

17 Assets Held for Sale

On November 22, 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose of its indirect wholly owned subsidiaries and the shareholder's loan. The assets held by the subsidiaries were the retail arcade and some car parking spaces at Carmel-on-the-Hill in Hong Kong. Accordingly, the following assets and liabilities are presented as a disposal group held for sale.

	2017 HK$ Million
Investment properties	**213**
Properties for sale	**1**
Assets held for sale	**214**
Deposits received	**2**
Liabilities directly associated with the assets held for sale	**2**

After the end of the reporting period, the completion of the transaction took place on January 22, 2018.

The fair value of investment properties was determined by reference to the selling price on the sale and purchase agreement signed with an independent third party and was categorized as a Level 2 measurement (see Note 11(a)(i)) as there was no significant unobservable input.

18 Bank Loans and Other Borrowings

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

	2017 HK$ Million	2016 HK$ Million
Bank loans (Note (a))		
Within 1 year or on demand	**1,737**	568
After 1 year but within 2 years	**3,609**	2,734
After 2 years but within 5 years	**5,283**	10,174
Over 5 years	**1,485**	1,039
	12,114	14,515
Other borrowings (Note (b))		
Within 1 year or on demand	**375**	–
After 1 year but within 2 years	**–**	375
After 2 years but within 5 years	**10,779**	4,918
Over 5 years	**1,650**	7,451
	12,804	12,744
	24,918	27,259
Less: unamortized front end fees	**(98)**	(177)
Total bank loans and other borrowings	**24,820**	27,082
Amount due within 1 year included under current liabilities	**(2,112)**	(568)
	22,708	26,514

(a) All bank loans are interest-bearing at rates ranging from 1.3% to 5.3% (2016: 0.7% to 5.9%) per annum during the year.

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

At December 31, 2017, the Group had HK$9,969 million (2016: HK$8,852 million) committed undrawn banking facilities.

(b) A wholly-owned subsidiary of the Company has a USD3 billion (2016: USD3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the bonds have been issued with coupon rates ranged from 2.95% to 4.75% (2016: 2.95% to 4.75%) per annum under the Program.

19 Trade and Other Payables

	2017 HK$ Million	2016 HK$ Million
Creditors and accrued expenses (Note (a))	4,348	4,271
Deposits received (Note (b))	2,325	2,056
	6,673	6,327

(a) Creditors and accrued expenses include retention money payable of HK$460 million (2016: HK$307 million) which is not expected to be settled within one year.

(b) Deposits received of HK$1,309 million (2016: HK$1,213 million) are not expected to be settled within one year.

Included in trade and other payables are trade creditors with the following aging analysis:

	2017 HK$ Million	2016 HK$ Million
Due within 3 months	1,759	1,492
Due after 3 months	1,768	1,813
	3,527	3,305

20 Finance Lease Obligations

The minimum lease payments under finance lease and their present values are as follows:

	2017			2016		
	Present value of minimum lease payments HK$ Million	Interest expense in future periods HK$ Million	Total minimum lease payments HK$ Million	Present value of minimum lease payments HK$ Million	Interest expense in future periods HK$ Million	Total minimum lease payments HK$ Million
Payable within 1 year	19	–	19	–	–	–
Payable after 1 year but within 5 years	81	12	93	–	–	–
Payable after 5 years	238	200	438	–	–	–
	338	212	550	–	–	–

21 Taxation in the Consolidated Statement of Financial Position

(a) Current taxation

	2017 HK$ Million	2016 HK$ Million
Provision for Hong Kong Profits Tax	**244**	608
Provision for mainland China Income Tax	**239**	324
	483	932

(b) Deferred taxation

	2017 HK$ Million	2016 HK$ Million
Deferred tax liabilities	**9,025**	8,421
Deferred tax assets	**–**	(10)
Net deferred tax liabilities	**9,025**	8,411

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

	Depreciation allowances in excess of related depreciation HK$ Million	Revaluation of properties HK$ Million	Future benefit of tax losses HK$ Million	Others HK$ Million	Total HK$ Million
At January 1, 2016	1,360	7,582	(2)	97	9,037
Exchange adjustment	(62)	(482)	–	(2)	(546)
Charged/(Credited) to profit or loss (Note 8(a))	87	(148)	1	(20)	(80)
At December 31, 2016 and January 1, 2017	1,385	6,952	(1)	75	8,411
Exchange adjustment	**70**	**495**	**–**	**1**	**566**
Charged/(Credited) to profit or loss (Note 8(a))	**84**	**(1)**	**(40)**	**5**	**48**
At December 31, 2017	**1,539**	**7,446**	**(41)**	**81**	**9,025**

Included in "Others" are mainly deferred tax liabilities recognized in respect of undistributed profits of foreign investment enterprises in mainland China.

21 Taxation in the Consolidated Statement of Financial Position (Continued)

(c) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of HK$4,434 million (2016: HK$3,471 million) sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilized is not probable at December 31, 2017. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in mainland China expire five years after the relevant accounting year end date.

22 Share Capital

Movements of the Company's ordinary shares are set out below:

	2017		2016	
	Number of shares	**Amount of share capital**	Number of shares	Amount of share capital
	Million	**HK$ Million**	Million	HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	**4,498**	**39,912**	4,497	39,903
Shares issued under share option scheme	**–**	**–**	1	9
At December 31	**4,498**	**39,912**	4,498	39,912

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

23 Reserves

(a) The Group

	Other reserves						
	Exchange reserve HK$ Million	Hedging reserve HK$ Million	Investment revaluation reserve HK$ Million	Employee share-based compensation reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2016	2,116	–	–	733	2,849	86,237	89,086
Profit for the year	–	–	–	–	–	6,195	6,195
Exchange difference arising from translation of foreign subsidiaries	(5,356)	–	–	–	(5,356)	–	(5,356)
Total comprehensive income for the year	(5,356)	–	–	–	(5,356)	6,195	839
Final dividend in respect of previous year	–	–	–	–	–	(2,608)	(2,608)
Interim dividend in respect of current year	–	–	–	–	–	(765)	(765)
Issue of shares	–	–	–	(2)	(2)	–	(2)
Employee share-based payments	–	–	–	70	70	33	103
At December 31, 2016, as previously reported	(3,240)	–	–	801	(2,439)	89,092	86,653
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	**-**	**-**	**85**	**-**	**85**	**-**	**85**
At January 1, 2017, restated	**(3,240)**	**-**	**85**	**801**	**(2,354)**	**89,092**	**86,738**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**8,124**	**8,124**
Exchange difference arising from translation of foreign subsidiaries	**4,813**	**-**	**-**	**-**	**4,813**	**-**	**4,813**
Cash flow hedges: net movement in hedging reserve	**-**	**(134)**	**-**	**-**	**(134)**	**-**	**(134)**
Total comprehensive income for the year	**4,813**	**(134)**	**-**	**-**	**4,679**	**8,124**	**12,803**
Final dividend in respect of previous year	**-**	**-**	**-**	**-**	**-**	**(2,608)**	**(2,608)**
Interim dividend in respect of current year	**-**	**-**	**-**	**-**	**-**	**(765)**	**(765)**
Employee share-based payments	**-**	**-**	**-**	**(74)**	**(74)**	**152**	**78**
At December 31, 2017	**1,573**	**(134)**	**85**	**727**	**2,251**	**93,995**	**96,246**

23 Reserves (Continued)

(a) The Group (Continued)

The retained profits for the Group at December 31, 2017 included HK$911 million (2016: HK$811 million) in respect of statutory reserves of the subsidiaries in mainland China.

The exchange reserve of the Group comprises the exchange differences arising from the translation of the financial statements of the Group's operations in mainland China.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss (note 1(j)).

The investment revaluation reserve comprises the cumulative net change in the fair value of equity investment measured at FVTOCI (note 1(i)).

The employee share-based compensation reserve comprises the fair value of share options granted which are not yet exercised, as explained in note 1(x).

(b) The Company

	Employee share-based compensation reserve HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2016	733	13,946	14,679
Profit and total comprehensive income for the year	–	5,293	5,293
Final dividend in respect of previous year	–	(2,608)	(2,608)
Interim dividend in respect of current year	–	(765)	(765)
Issue of shares	(2)	–	(2)
Employee share-based payments	70	33	103
At December 31, 2016 and January 1, 2017	801	15,899	16,700
Profit and total comprehensive income for the year	**–**	**10,649**	**10,649**
Final dividend in respect of previous year	**–**	**(2,608)**	**(2,608)**
Interim dividend in respect of current year	**–**	**(765)**	**(765)**
Employee share-based payments	**(74)**	**152**	**78**
At December 31, 2017	**727**	**23,327**	**24,054**

The aggregate amount of the Company's reserves available for distribution to equity shareholders of the Company at December 31, 2017 was HK$23,327 million (2016: HK$15,899 million).

23 Reserves (Continued)

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure access to finance at a reasonable cost.

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

The Group monitors its capital structure by reviewing its leveraging ratio (net debt to equity and debt to equity) and cash flow requirements, taking into account its future financial obligations and commitments. Net debt represents bank loans and other borrowings less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

The Group has a net debt position as of December 31, 2017 (Note 14). Net debt to equity ratio and debt to equity ratio as at December 31, 2017 were 1.9% (2016: 2.1%) and 17.4% (2016: 20.5%), respectively. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 Non-Controlling Interests

Non-controlling interests represent the equity interests attributable to other shareholders, including their share of profit or loss, in respect of the subsidiaries not wholly-owned by the Group. Details of movement of non-controlling interests are set out in the consolidated statement of changes in equity.

25 Cash Generated from Operations

	2017 HK$ Million	2016 HK$ Million
Profit before taxation	**9,902**	7,979
Adjustments for:		
Gain on disposal of investment properties	**(464)**	(8)
Fair value gain on derivative financial instruments	**–**	(203)
Ineffectiveness on cash flow hedges	**5**	–
Interest income on bank deposits	**(548)**	(794)
Finance costs	**1,202**	1,111
Depreciation	**43**	53
Loss on disposal of other property, plant and equipment	**–**	1
Net (increase)/decrease in fair value of properties	**(2,599)**	286
Share of profits of joint ventures	**(78)**	(62)
Employee share-based payments	**78**	103
Decrease in properties for sale	**739**	1,531
Decrease/(Increase) in trade and other receivables	**2,000**	(2,783)
(Decrease)/Increase in creditors and accrued expenses	**(129)**	480
Increase in deposits received	**182**	43
Cash generated from operations	**10,333**	7,737

26 Acquisition of Subsidiaries

During the year, the Group acquired several subsidiaries. The fair values of assets acquired and liabilities assumed were as follows:

	2017 HK$ Million
Investment properties	**616**
Loan from the seller of the acquiree companies	**(41)**
Trade and other receivables	**1**
Trade and other payables	**(1)**
Net assets acquired	**575**
Acquisition of the loan from the seller of the acquiree companies	**41**
Cash outflow on acquisition	**616**

27 Reconciliation of Liabilities Arising from Financing Activities

	Bank loans and other borrowings HK$ Million (Note 18)	Finance lease obligations HK$ Million (Note 20)
At January 1, 2017	27,082	–
Cash flows	(3,245)	–
New finance leases	–	318
Unwind of discount and amortization of transaction costs	79	8
Exchange adjustment	904	12
At December 31, 2017	**24,820**	**338**

28 Commitments

At the end of the reporting period, capital commitments not provided for in the financial statements were as follows:

	2017 HK$ Million	2016 HK$ Million
Contracted for	12,660	6,348
Authorized but not contracted for	22,914	30,709
	35,574	37,057

The above commitments include mainly the land costs and construction related costs to be incurred in respect of the Group's development of its properties in various cities in mainland China.

29 Employee Benefits

(a) Retirement benefits

The Group operates a defined contribution provident fund scheme for its employees. The assets of the scheme are held separately from those of the Group by an independent corporate trustee and managed by professional fund managers.

Contributions are made by both the employer and the employees at a certain percentage of employees' basic salaries, the percentage varying with their length of service. When an employee leaves the scheme prior to his or her interest in the Group's contributions being fully vested, forfeited contributions are refunded to the Group. Total contributions made by the Group for the year amounted to HK$31 million (2016: HK$29 million) and forfeited sums refunded to the Group amounted to HK$4 million (2016: HK$2 million).

29 Employee Benefits (Continued)

(a) Retirement benefits (Continued)

A master trust Mandatory Provident Fund Scheme (the "MPF Scheme") is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of HK$30,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. Total MPF contributions made by the Group for the year amounted to HK$7 million (2016: HK$7 million).

As the Group's provident fund scheme is an MPF Exempted Occupational Retirement Scheme (the "ORSO Scheme"), eligibility for membership of the ORSO and MPF schemes is identical. New employees are offered a one-off option to join either the ORSO or the MPF scheme.

Staff in the Company's subsidiaries operating in mainland China are members of a retirement benefits scheme (the "Mainland RB Scheme") operated by the local municipal government in mainland China. The only obligation of the subsidiaries in mainland China is to contribute a certain percentage of their payroll to Mainland RB Scheme to fund the retirement benefits. The local municipal government in mainland China undertakes to assume the retirement benefits obligations of all existing and future retired employees of subsidiaries in mainland China. Total contributions made by subsidiaries in mainland China for the year amounted to HK$53 million (2016: HK$49 million).

(b) Equity compensation benefits

The share option scheme adopted by the Company on November 22, 2002 (the "2002 Share Option Scheme") was terminated upon the adoption of a new share option scheme on April 18, 2012 (the "2012 Share Option Scheme", together with the 2002 Share Option Scheme are referred to as the "Schemes"). No further options shall be offered under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid. The 2012 Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and expiring on the tenth anniversary thereof.

The purposes of the Schemes are to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group, to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

Under the Schemes, the board of directors of the Company (the "Board") is authorized to grant options to selected participants, including employees and directors of any company in the Group, subject to the terms and conditions such as performance targets as the Board may specify on a case-by-case basis or generally. The exercise price of the options is determined by the Board at the time of grant, and shall not be less than the higher of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The period open for acceptance of the option and amount payable thereon, the vesting period, the exercisable period and the number of shares subject to each option are determined by the Board at the time of grant.

As of the date of this report, the total number of shares available for issue under the 2012 Share Option Scheme is 238,761,253 shares, representing 5.3% of the total number of issued shares of the Company. The total number of shares issued and to be issued upon exercise of options (including both exercised and outstanding) granted to each participant in any 12-month period shall not exceed 1% of shares of the Company in issue.

The movements of share options during the year are as follows:

(i) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2017	Exercised	Forfeited/ Lapsed	**Outstanding on December 31, 2017**	Period during which options are exercisable	Exercise price (HK$)
January 11, 2007 to March 19, 2007	890,000	–	(890,000)	**–**	January 11, 2008 to March 18, 2017	18.88 – 22.55
August 21, 2007 to December 31, 2008	30,522,000	–	(18,150,000)	**12,372,000**	August 21, 2008 to December 30, 2018	17.36 – 27.90
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	31,350,000	–	(140,000)	**31,210,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	76,142,000	–	(19,180,000)	**56,962,000**		

All the above options may vest after one/two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were cancelled during the year.

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

(i) 2002 Share Option Scheme (Continued)

During the year, 140,000 (2016: 868,000) options were forfeited upon cessation of a grantee's employment and 19,040,000 (2016: 435,000) options lapsed due to the expiry of the period for exercising the options.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**26.99**	**76,142,000**	26.90	77,845,000
Exercised	**–**	**–**	16.75	(400,000)
Forfeited	**30.79**	**(140,000)**	24.72	(868,000)
Lapsed	**24.83**	**(19,040,000)**	16.75	(435,000)
Outstanding at December 31	**27.71**	**56,962,000**	26.99	76,142,000
Exercisable at December 31	**27.71**	**56,962,000**	26.99	76,142,000

No share options were exercised by the directors and employees during the year. The weighted average closing price of the shares immediately before the dates of exercise by the employees during 2016 was HK$18.27.

The weighted average closing share price at the dates of exercise for share options during 2016 was HK$18.47.

The weighted average remaining contractual life of options outstanding at the end of the reporting period was 2.4 years (2016: 2.7 years).

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

(ii) 2012 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2017	Granted	Forfeited/ Lapsed	**Outstanding on December 31, 2017**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	29,770,000	–	(1,552,000)	**28,218,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	27,934,000	–	(2,522,000)	**25,412,000**	December 5, 2016 to December 4, 2024	22.60
August 10, 2017	–	43,760,000	(450,000)	**43,310,000**	August 10, 2019 to August 9, 2027	19.98
Total	57,704,000	43,760,000	(4,524,000)	**96,940,000**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were exercised or cancelled during the year.

The closing price of shares immediately before the date of grant during the year was HK$20.05.

During the year, 4,524,000 (2016: 4,226,000) options were forfeited upon cessations of the grantees' employments.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**25.49**	**57,704,000**	25.46	61,930,000
Granted	**19.98**	**43,760,000**	–	–
Forfeited	**24.26**	**(4,524,000)**	25.00	(4,226,000)
Outstanding at December 31	**23.06**	**96,940,000**	25.49	57,704,000
Exercisable at December 31	**26.46**	**24,554,400**	26.87	11,724,000

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

(ii) 2012 Share Option Scheme (Continued)

The weighted average remaining contractual life of options outstanding at the end of the reporting period was 7.7 years (2016: 7.1 years).

The fair value of share options granted was estimated at the date of grant using the Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted. In respect of the share options granted during the year, the fair value, the terms and conditions and weighted average assumptions are as follows:

Fair value at grant date	HK$3.15
Share price at grant date	HK$19.86
Exercise price	HK$19.98
Risk-free interest rate	1.27%
Expected life (in years)	6
Expected volatility	26.50%
Expected dividends per share	HK$0.75

The expected volatility is based on the historical volatility and the expected dividends per share are based on historical dividends. Changes in the above assumptions could materially affect the fair value estimate.

(iii) In respect of share options granted to the directors, the related charge recognized for the year ended December 31, 2017, estimated in accordance with the Group's accounting policy in note 1(x)(2) was as follows:

(1) Mr. Ronnie C. Chan, HK$6.6 million (2016: HK$10.9 million);
(2) Mr. Philip N.L. Chen, HK$7.0 million (2016: HK$10.6 million);
(3) Mr. H.C. Ho, HK$4.4 million (2016: HK$7.3 million); and
(4) Mr. Adriel W. Chan, HK$0.4 million (2016: HK$0.1 million).

30 Related Party Transactions

Except for the transactions and balances already disclosed elsewhere in the financial statements, the Group entered into the following related party transactions during the year in its ordinary course of business:

(a) Emoluments to directors and key management has been disclosed in notes 7 and 29(b).

(b) The Group acquired the entire share capital in Wentworth Limited and the aggregate amount of shareholder's loan from a wholly-owned subsidiary of its ultimate holding company, Hang Lung Group Limited at a total consideration of HK$225 million on November 20, 2017 upon the completion of a sale and purchase agreement. This constituted a connected transaction as defined in Chapter 14A of the Listing Rules and the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Except as disclosed in note (b) above, none of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

31 Financial Risk Management Objectives and Policies

Exposure to interest rate, liquidity, credit and currency risks arises in the normal course of the Group's business. The Group has policies and practices approved by management as described below in managing these risks.

(a) Interest rate risk

The Group's interest rate risk arises primarily from deposits with banks and floating rate bank borrowings. Interest rate trends and movements are closely monitored and, if appropriate, existing borrowings will be replaced with new bank facilities when favorable pricing opportunities arise. In addition, the Group maintains the Medium Term Note Program which facilitates the Group to mitigate future interest rate volatility and re-financing risks.

The interest rates of interest-bearing financial assets and liabilities are disclosed in notes 14 and 18.

Based on the simulations performed at year end in relation to the Group's bank deposits and borrowings, it was estimated that the impact of a 100 basis-point increase in market interest rates from the rates applicable at the year end date, with all other variables held constant, would increase the Group's profit after taxation and total equity by approximately HK$92 million (2016: HK$97 million).

This analysis is based on a hypothetical situation, as in practice market interest rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

— changes in market interest rates affect the interest income and interest expense of floating rate financial instruments and bank borrowings; and

— all other financial assets and liabilities are held constant.

The analysis was performed on the same basis for 2016.

31 Financial Risk Management Objectives and Policies (Continued)

(b) Liquidity risk

The Group manages its surplus cash centrally and the liquidity risk of the Company and its subsidiaries at the corporate level. The objective is to ensure that an adequate amount of cash and committed bank facilities are available to meet all funding requirements. Significant flexibility is achieved through diverse sources of committed credit lines for capturing future expansion opportunities.

		Contractual undiscounted cash flow				
	Carrying amount HK$ Million	Total HK$ Million	Within 1 year or on demand HK$ Million	More than 1 year but less than 2 years HK$ Million	More than 2 years but less than 5 years HK$ Million	More than 5 years HK$ Million
Bank loans and other borrowings	**24,820**	**29,080**	**3,222**	**4,616**	**17,890**	**3,352**
Trade and other payables	**6,673**	**6,673**	**4,904**	**979**	**682**	**108**
Finance lease obligations	**338**	**550**	**19**	**22**	**71**	**438**
At December 31, 2017	**31,831**	**36,303**	**8,145**	**5,617**	**18,643**	**3,898**

		Contractual undiscounted cash flow				
	Carrying amount HK$ Million	Total HK$ Million	Within 1 year or on demand HK$ Million	More than 1 year but less than 2 years HK$ Million	More than 2 years but less than 5 years HK$ Million	More than 5 years HK$ Million
Bank loans and other borrowings	27,082	32,497	1,732	4,216	17,566	8,983
Trade and other payables	6,327	6,327	4,807	830	507	183
At December 31, 2016	33,409	38,824	6,539	5,046	18,073	9,166

31 Financial Risk Management Objectives and Policies (Continued)

(c) Credit risk

The Group's credit risk is primarily attributable to trade receivables with tenants and deposits held with reputable banks and financial institutions.

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. Proceeds from property sales are receivable pursuant to the terms of the sale and purchase agreements. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Except for sale of properties developed by the Group, it does not hold any collateral over the receivables. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

Surplus cash is placed with reputable banks and financial institutions in accordance with pre-determined limits based on credit ratings and other factors to minimize concentration risk.

The Group does not provide any financial guarantee which would expose the Group to material credit risk.

There are no significant concentrations of credit risk within the Group.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(d) Currency risk

The Group adopts a conservative risk management policy to manage foreign currency exposure. The level of hedge is decided through cost and benefit analysis with reference to prevailing market situation. If appropriate, the Group may use derivative financial instruments solely for hedging purposes. These derivatives reduce the uncertainty of interest payments and principal repayments of foreign currency debts and can be entered into on or after the issuance of a foreign currency debt.

Currency risk arises from assets and liabilities denominated in a currency other than the functional currency of the Group's entities to which they related. The Group has bonds outstanding amounting to USD1,000 million (2016: USD1,000 million). The currency risk arising from the USD denominated bonds is hedged by back-to-back USD/HKD cross currency swaps, at exchange rate of 7.75 HKD/USD and fixed interest rates ranging from 4.395% to 4.715% per annum. These swaps will mature in 2021 and 2022.

31 Financial Risk Management Objectives and Policies (Continued)

(d) Currency risk (Continued)

Starting from January 1, 2017, the Group has designated the cross currency swaps in their entirety as the hedging instruments of the foreign currency risk arising from the USD denominated bonds. The table below summarizes the effect of the hedge accounting:

Notional amount of hedging instruments HK$ Million	Carrying amounts of hedging instruments – assets/ (liabilities) HK$ Million	Line item in the statement of financial position where hedging instruments are included	Change in fair value used for measuring hedge ineffectiveness		Hedge ineffectiveness* recognized in profit or loss – other net loss HK$ Million	Change in fair value of hedging instruments recognized in other comprehensive income HK$ Million	Amount reclassified from hedging reserve to profit or loss that are charged/(credited) to	
			Hedging instruments HK$ Million	Hedged items HK$ Million			Finance costs HK$ Million	Other net loss HK$ Million
7,750	7	Trade and other receivables	(91)	(86)	(5)	(86)	12	(60)
	(3)	Trade and other payables						

* The hedge ratio is determined to be 1:1 as all critical terms were matched. However, as the cross currency swaps were not entered into on January 1, 2017 (the date designated as the hedging instruments), ineffectiveness arose as terms of cross currency swaps were not exactly the same as the market position of the bonds.

The Group engages in property development and investments in mainland China through its local subsidiaries whose net assets are exposed to currency risk. In addition, the Group has Renminbi deposits of RMB7,807 million (2016: RMB19,293 million), for which there are currency risks but which are held to meet its ongoing Renminbi payment obligations in relation to its development projects in mainland China. Where appropriate, the Group seeks to minimize its exposure to currency risk in mainland China through borrowings denominated in Renminbi.

Management estimated that a 5% (2016: 5%) appreciation/depreciation of Renminbi against Hong Kong dollar would increase/decrease the Group's equity attributable to shareholders by HK$3,909 million (2016: HK$3,783 million).

The above analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2016.

31 Financial Risk Management Objectives and Policies (Continued)

(e) Fair value

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

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

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

- Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Financial assets and liabilities measured at fair value

Derivative financial instruments — cross currency swaps

The fair value of cross currency swaps as of December 31, 2017 of HK$7 million recorded under "Trade and other receivables" and HK$3 million recorded under "Trade and other payables" (December 31, 2016: HK$102 million recorded under "Trade and other receivables") in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

Investment in equity instruments

The fair value of non-publicly traded equity investments as of December 31, 2017 of HK$85 million in Level 3 is determined by reference to the net asset value of these investments.

Transfers of instruments between the three-level fair value hierarchy

During the year, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2016: Nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as of December 31, 2016 and 2017.

32 Significant Accounting Estimates and Judgments

Key sources of estimation uncertainty

Notes 11(a), 29(b) and 31(e) contain information about the assumptions and their risk relating to valuation of investment properties and investment properties under development, fair value of share options granted and derivative financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Properties held for sale

The Group determines the net realizable value of unsold properties based on estimation of future selling price less costs to be incurred in relation to the sale, with reference to the prevailing market data and market survey reports available from independent property valuers.

(b) Income taxes

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and judgment is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(c) Recognition of deferred tax assets

The amount of the deferred tax assets included in the consolidated statement of financial position of the Group is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences and unused tax losses can be utilized. The recognition of deferred tax assets requires the Group to make judgments based on the assessment of future financial performance, the amount of future taxable profits and the timing of when these will be realized.

33 Company-Level Statement of Financial Position

At December 31, 2017

	Note	2017 HK$ Million	2016 HK$ Million
Non-current asset			
Interest in subsidiaries	34	**84,696**	77,099
Current assets			
Cash and deposits with banks		**4**	1
Trade and other receivables		**10**	7
		14	8
Current liability			
Trade and other payables		**22**	17
Net current liabilities		**(8)**	(9)
Total assets less current liabilities		**84,688**	77,090
Non-current liability			
Amounts due to subsidiaries	34(c)	**20,722**	20,478
NET ASSETS		**63,966**	56,612
Capital and reserves			
Share capital	22	**39,912**	39,912
Reserves	23	**24,054**	16,700
TOTAL EQUITY		**63,966**	56,612

Philip N.L. Chen
Chief Executive Officer

H.C. Ho
Chief Financial Officer

34 Interest in Subsidiaries

	2017 HK$ Million	2016 HK$ Million
Unlisted shares, at cost	**8**	8
Amounts due from subsidiaries (Note (b))	**84,688**	77,091
	84,696	77,099

(a) Details of principal subsidiaries are set out in note 38.

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

(c) Amounts due to subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current liabilities as they are not expected to be repaid within the next twelve months.

35 Ultimate Holding Company

The ultimate holding company is Hang Lung Group Limited, a company incorporated in Hong Kong.

36 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Year Ended December 31, 2017

The Group has not early applied the following amendments and new standards which have been issued by the HKICPA but are not yet effective for the year ended December 31, 2017.

		Effective for accounting periods beginning on or after
Amendments to HKAS 40	Transfers of investment property	January 1, 2018
HKFRS 15	Revenue from contracts with customers	January 1, 2018
HKFRS 16	Leases	January 1, 2019

The adoption of HKFRS 16 and amendments to HKAS 40 is unlikely to have a significant impact on the consolidated financial statements. In respect of revenue recognition of sale of completed properties, the current policy is set out in note 1(s). Under HKFRS 15, revenue from sale of goods or provision of services will be recognized when the customer obtains control of the promised good or service in the contract. Management has assessed the impact of the adoption of HKFRS 15 and based on its assessment, this would result in the revenue from sale of completed properties recognized later than it would have been at present.

37 Approval of Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors on January 30, 2018.

38 Principal Subsidiaries

At December 31, 2017

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Antonis Limited*	10,000	100	100	Property leasing	Hong Kong
AP City Limited	2	100	–	Property leasing	Hong Kong
AP Joy Limited	2	100	–	Property development & leasing	Hong Kong
AP Properties Limited				Property development & leasing	Hong Kong
‘A’ shares	34	100	–		
‘B’ shares	6	100	–		
AP Star Limited*	2	100	–	Investment holding	Hong Kong
AP Success Limited	2	100	–	Property leasing	Hong Kong
AP Universal Limited*	2	100	–	Property leasing	Hong Kong
AP Win Limited*	1,000,000	100	–	Property leasing	Hong Kong
AP World Limited	2	100	100	Property development & leasing	Hong Kong
Bonna Estates Company Limited	1,000,000	100	100	Property leasing	Hong Kong
Caddo Enterprises, Limited*	4,000,000	100	–	Property leasing	Hong Kong
Cititop Limited	2	100	–	Property development & leasing	Hong Kong
Country Bond Development Limited				Investment holding	Hong Kong
‘A’ shares	990	79.8	–		
‘B’ share	1	100	–		
Dokay Limited*	2	100	–	Property leasing	Hong Kong
Easegood Enterprises Limited	2	100	–	Investment holding	Hong Kong
Fu Yik Company Limited*	3	100	–	Property leasing	Hong Kong
Gala Ruby Limited*	2	100	100	Investment holding	Hong Kong
Gowily Limited	2	100	–	Property leasing	Hong Kong
Grand Centre Limited	4	100	–	Property leasing	Hong Kong
Grand Hotel Group Limited	10,200	100	–	Apartment operating & management	Hong Kong
Grand Hotel Holdings Limited				Investment holding	Hong Kong
‘A’ shares	62,163,123	100	–		
‘B’ shares	6,000,000	100	–		

38 Principal Subsidiaries (Continued)

At December 31, 2017

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Hang Chui Company Limited	2	100	–	Property leasing	Hong Kong
Hang Far Company Limited*	2	100	–	Investment holding	Hong Kong
Hang Fine Company Limited	200	100	–	Property leasing	Hong Kong
Hang Kwok Company Limited*	10,000	100	–	Property leasing	Hong Kong
Hang Lung (Administration) Limited	10,000	100	100	Management services	Hong Kong
Hang Lung (Dalian) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Jiangsu) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Jinan) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Kunming) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Liaoning) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Shenyang) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Tianjin) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Wuhan) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Wuxi) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung Park-In Limited	2	100	–	Property leasing	Hong Kong
Hang Lung Project Management Limited*	10,000	100	100	Project management	Hong Kong
Hang Lung Property Management Limited*	100,000	100	–	Property management	Hong Kong
Hang Lung Real Estate Agency Limited*	2	100	100	Property agencies	Hong Kong
HLP (China) Administrative Limited	1	100	–	Management services	Hong Kong
HLP (China) Limited	2	100	100	Investment holding	Hong Kong
HLP Finance Limited^	US$1	100	100	Financial services	British Virgin Islands
HLP Financial Services Limited	RMB1	100	–	Financial services	Hong Kong
HLP Treasury Limited	2	100	100	Financial services	Hong Kong
HLP Treasury Services Limited*	2	100	–	Financial services	Hong Kong
Hoi Sang Limited*	2	100	–	Investment holding	Hong Kong
Lockoo Limited*	1,000,002	100	–	Property development	Hong Kong
Mansita Limited*	2	100	–	Property leasing	Hong Kong
Modalton Limited	2	100	–	Property leasing	Hong Kong

38 Principal Subsidiaries (Continued)

At December 31, 2017

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Palex Limited*	2	100	–	Property leasing	Hong Kong
Pocaliton Limited	2	100	–	Property leasing	Hong Kong
Rago Star Limited	2	100	–	Property leasing	Hong Kong
Stooket Limited	2	100	100	Property leasing	Hong Kong
Tegraton Limited	2	100	–	Property leasing	Hong Kong
Total Select Limited	1	100	–	Investment holding	Hong Kong
Wai Luen Investment Company, Limited*	100,000	100	–	Property leasing	Hong Kong
Yangli Limited*	2	100	–	Property leasing	Hong Kong

Wholly Foreign Owned Enterprises in mainland China	Registered Capital	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Dalian Hang Lung Properties Ltd.	RMB4,136,877,355	100	–	Property development & leasing	Mainland China
Kunming Hang Ying Properties Ltd.	RMB5,187,321,800	100	–	Property development	Mainland China
Liaoning Hang Lung Properties Ltd.	RMB5,632,096,324	100	–	Property development & leasing	Mainland China
Shandong Hang Lung Properties Ltd.	US$385,000,000	100	–	Property development & leasing	Mainland China
Shenyang Hang Lung Properties Ltd.	US$349,990,000	100	–	Property development & leasing	Mainland China
Tianjin Hang Lung Properties Ltd.	HK$4,229,600,000	100	–	Property development & leasing	Mainland China
Wuxi Hang Lung Properties Ltd.	RMB4,037,746,261	100	–	Property development & leasing	Mainland China
Wuxi Hang Ying Properties Ltd.	RMB492,716,180	100	–	Property development	Mainland China
Hubei Hang Lung Property Development Co., Ltd.	RMB4,850,000,000	100	–	Property development	Mainland China

38 Principal Subsidiaries (Continued)

At December 31, 2017

Equity Joint Ventures in mainland China	Registered Capital (US$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Shanghai Hang Bond Property Development Co., Ltd.	167,004,736	82	–	Property development & leasing	Mainland China
Shanghai Kong Hui Property Development Co., Ltd.	165,000,000	69.3#	–	Property development & leasing	Mainland China

^ Operated in Hong Kong

* Not audited by KPMG

\# Represents the Group's attributable interest in the commercial portion of the properties held either directly or indirectly by the subsidiary

The above list gives the principal subsidiaries of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

39 Joint Ventures

At December 31, 2017

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Country Link Enterprises Limited	5,000,000	36.8	–	Investment holding	Hong Kong
Ease Smart Development Limited				Investment holding	Hong Kong
'A' share	1	–	–		
'B' share	1	100	–		
Star Play Development Limited*	3	33.3	–	Property leasing	Hong Kong

* Not audited by KPMG

Ten-Year Financial Summary

in HK$ million (unless otherwise stated)	2017	2016	2015	2014
	For the years ended December 31			
CONSOLIDATED STATEMENT OF PROFIT OR LOSS				
Revenue				
Property leasing	**7,779**	7,737	7,751	7,216
Property sales	**3,420**	5,322	1,197	9,814
	11,199	**13,059**	**8,948**	**17,030**
Gross profit				
Property leasing	**5,672**	5,710	5,704	5,589
Property sales	**2,238**	3,209	844	7,419
	7,910	**8,919**	**6,548**	**13,008**
Underlying net profit attributable to shareholders	**5,530**	**6,341**	**4,387**	**10,022**
Effect of changes in fair value of properties	**2,594**	(146)	705	1,682
Net profit attributable to shareholders	**8,124**	**6,195**	**5,092**	**11,704**
Dividends for the year/period	**(3,373)**	(3,373)	(3,373)	(3,409)
Retained profits for the year/period	**4,751**	**2,822**	**1,719**	**8,295**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Net assets employed (Note 2)				
Investment properties	**134,444**	125,421	129,425	120,137
Investment properties under development	**21,592**	17,282	16,709	25,611
Properties for sale	**1,612**	2,352	3,830	4,046
Other assets	**3,832**	5,527	2,765	3,439
	161,480	150,582	152,729	153,233
Other liabilities	**(16,521)**	(15,680)	(16,355)	(19,078)
	144,959	**134,902**	**136,374**	**134,155**
Financed by				
Shareholders' equity	**136,158**	126,565	128,989	132,327
Non-controlling interests	**6,087**	5,580	5,903	6,676
Net debt/(cash)	**2,714**	2,757	1,482	(4,848)
	144,959	134,902	136,374	134,155
Number of shares issued (in million)	**4,498**	4,498	4,497	4,485
PER SHARE DATA				
Basic earnings (HK$)	**$1.81**	$1.38	$1.13	$2.61
Dividends (HK cents)	**75¢**	75¢	75¢	76¢
Interim	**17¢**	17¢	17¢	17¢
Final	**58¢**	58¢	58¢	59¢
Shareholders' equity (HK$)	**$30.3**	$28.1	$28.7	$29.5
Net assets (HK$)	**$31.6**	$29.4	$30.0	$31.0
Dividend payout ratio	**42%**	54%	66%	29%
Underlying dividend payout ratio	**61%**	53%	77%	34%
FINANCIAL INDICATORS				
Net debt to equity	**1.9%**	2.1%	1.1%	0.0%
Debt to equity	**17.4%**	20.5%	24.3%	25.2%
Interest cover (times)	**11**	16	16	24
Return on average shareholders' equity	**6.2%**	4.8%	3.9%	9.1%

Note 1 In November 2011, the Board of Directors approved the change of the Group's financial year end date from June 30 to December 31. Thus, the Group has a six-month financial period from July 1 to December 31, 2011.

Note 2 Net assets employed are presented by excluding net debt/cash.

For the years ended December 31		July–December	For the years ended June 30			
2013	2012	2011 (Note 1)	2011	2010	2009	2008
6,638	6,098	2,876	5,161	4,546	4,162	3,745
2,500	1,274	193	3	7,511	11	6,335
9,138	**7,372**	**3,069**	**5,164**	**12,057**	**4,173**	**10,080**
5,326	4,896	2,301	4,194	3,726	3,441	3,046
1,511	846	150	2	5,256	3	3,552
6,837	**5,742**	**2,451**	**4,196**	**8,982**	**3,444**	**6,598**
5,050	**6,178**	**1,650**	**2,741**	**6,674**	**2,388**	**5,123**
2,162	2,217	866	3,051	16,887	1,597	8,036
7,212	**8,395**	**2,516**	**5,792**	**23,561**	**3,985**	**13,159**
(3,359)	(3,313)	(1,610)	(3,175)	(2,951)	(2,736)	(2,736)
3,853	**5,082**	**906**	**2,617**	**20,610**	**1,249**	**10,423**
107,587	98,223	93,610	85,918	80,965	62,766	59,085
30,478	24,482	23,613	21,524	15,326	7,570	5,657
5,695	6,109	6,114	5,963	5,855	7,683	6,817
4,199	3,025	3,594	4,075	2,619	1,664	2,204
147,959	131,839	126,931	117,480	104,765	79,683	73,763
(16,134)	(14,150)	(12,911)	(13,022)	(12,055)	(7,267)	(9,772)
131,825	**117,689**	**114,020**	**104,458**	**92,710**	**72,416**	**63,991**
124,534	117,928	111,462	109,719	93,105	71,894	66,377
6,633	6,050	5,556	5,205	4,682	3,292	2,273
658	(6,289)	(2,998)	(10,466)	(5,077)	(2,770)	(4,659)
131,825	117,689	114,020	104,458	92,710	72,416	63,991
4,479	4,477	4,473	4,472	4,159	4,146	4,145
$1.61	$1.88	$0.56	$1.33	$5.68	$0.96	$3.18
75¢	74¢	36¢	71¢	71¢	66¢	66¢
17¢	17¢	–	17¢	17¢	15¢	15¢
58¢	57¢	36¢	54¢	54¢	51¢	51¢
$27.8	$26.3	$24.9	$24.5	$22.4	$17.3	$16.0
$29.3	$27.7	$26.2	$25.7	$23.5	$18.1	$16.6
47%	39%	64%	53%	13%	69%	21%
66%	54%	97%	113%	44%	114%	53%
0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
26.7%	24.0%	17.7%	14.6%	6.6%	8.2%	8.6%
19	61	95	148	43	47	127
5.9%	7.3%	4.6%	5.7%	28.6%	5.8%	21.8%

Glossary

Financial Terms

Finance costs:	Total of interest expense on total borrowings and other borrowing costs, net of amount capitalized
Total borrowings:	Total of bank loans & other borrowings, net of unamortized other borrowing costs
Net debt:	Total borrowings net of cash and deposits with banks
Net profit attributable to shareholders:	Profit for the year (after tax) less amounts attributable to non-controlling interests
Underlying net profit attributable to shareholders:	Net profit attributable to shareholders excluded changes in fair value of properties net of related deferred tax and non-controlling interests

Financial Ratios

$$\text{Basic earnings per share} = \frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Debt to equity} = \frac{\text{Total borrowings}}{\text{Total equity}}$$

$$\text{Net assets per share} = \frac{\text{Net assets}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Net debt to equity} = \frac{\text{Net debt}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Operating profit before changes in fair value of properties}}{\text{Finance costs before capitalization less interest income}}$$

General Terms

AGM	annual general meeting of the Company
Articles of Association	the articles of association of the Company
Board	board of directors of the Company
Board Member(s) or **Directors of the Board**	director(s) of the Board
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company	Hang Lung Properties Limited
connected transaction	has the meaning ascribed to it in the Listing Rules
ERM	enterprise risk management
ESG Guide	Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules
Executive Board Members	executive directors of the Board
Group	the Company and its subsidiaries
HKEx	Hong Kong Exchanges and Clearing Limited
HKSAR	the Hong Kong Special Administrative Region of the People's Republic of China
HLGL	Hang Lung Group Limited (the ultimate listed holding company of the Company)
INED(s)	independent non-executive director(s)
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Stock Exchange	The Stock Exchange of Hong Kong Limited
UK	the United Kingdom
US or **USA**	the United States of America

Corporate Information

Directors

Ronnie C. Chan *(Chairman)*
Philip N.L. Chen *(Chief Executive Officer)*
Ronald J. Arculli *GBM, CVO, GBS, OBE, JP**
Dominic C.F. Ho*
Nelson W.L. Yuen*
Andrew K.C. Chan *BBS, JP**
H.K. Chang *GBS, JP**
Anita Y.M. Fung *BBS, JP**
H.C. Ho *(Chief Financial Officer)*
Adriel W. Chan

* *Independent Non-Executive Director*

Audit Committee

Dominic C.F. Ho *(Chairman)*
Andrew K.C. Chan *BBS, JP*
H.K. Chang *GBS, JP*
Anita Y.M. Fung *BBS, JP*

Nomination and Remuneration Committee

Ronald J. Arculli *GBM, CVO,GBS, OBE, JP (Chairman)*
Dominic C.F. Ho
H.K. Chang *GBS, JP*

Authorized Representatives

Philip N.L. Chen
Margaret K.M. Yan

Company Secretary

Margaret K.M. Yan

Registered Office

28th Floor, Standard Chartered Bank Building
4 Des Voeux Road Central, Hong Kong
Tel : 2879 0111
Fax : 2868 6086

Internet Address

Website : http://www.hanglung.com
Email address : HLProperties@hanglung.com

Auditor

KPMG
Certified Public Accountants

Financial Calendar

2017

July

Announcement of interim results	July 27, 2017

September

Interim dividend paid	September 28, 2017

2018

January

Announcement of annual results	January 30, 2018

April

Latest time for lodging transfers (for attending and voting at annual general meeting)	4:30 p.m. on April 20, 2018
Closure of share register (for attending and voting at annual general meeting)	April 23 to 26, 2018 (both days inclusive)
Annual general meeting (Details are set out in the notice of annual general meeting accompanying this annual report)	10:00 a.m. on April 26, 2018

May

Latest time for lodging transfers (for final dividend)	4:30 p.m. on May 2, 2018
Closure of share register (for final dividend)	May 3, 2018
Proposed final dividend payable	May 16, 2018

Listing Information

At December 31, 2017

4,497,575,670 shares listed on The Stock Exchange of Hong Kong Limited

Stock Code

Hong Kong Stock Exchange: 00101
Reuters: 0101.HK
Bloomberg: 101 HK

Board Lot Size (Share)

1,000

American Depositary Receipt (ADR)

Sponsored Level-1 (Over the Counter)
CUSIP Number/Ticker Symbol: 41043M104/HLPPY
ADR to Underlying Share Ratio: 1:5
Depositary Bank: The Bank of New York Mellon
Website: http://www.adrbnymellon.com

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Tel: 2862 8555
Fax: 2865 0990

Investor Relations Contact

C.F. Kwan
Email address: ir@hanglung.com

Share Information

	Share Price High HK$	Share Price Low HK$	Total Trading Volume Number of Shares ('000)
2017			
First quarter	20.95	16.48	412,870
Second quarter	21.80	18.68	268,349
Third quarter	20.50	17.72	303,824
Fourth quarter	19.36	17.28	311,881
Share Price as at December 31, 2017:			**HK$19.10**
Market Capitalization as at December 31, 2017:			**HK$85.90 billion**

	Share Price High HK$	Share Price Low HK$	Total Trading Volume Number of Shares ('000)
2016			
First quarter	17.70	13.00	498,765
Second quarter	16.44	13.64	383,430
Third quarter	19.32	15.10	314,741
Fourth quarter	17.94	15.86	254,343
Share Price as at December 31, 2016:			**HK$16.44**
Market Capitalization as at December 31, 2016:			**HK$73.94 billion**

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