恒隆集團
HANG LUNG GROUP

HANG LUNG GROUP LIMITED
STOCK CODE: 00010

Annual Report 2017

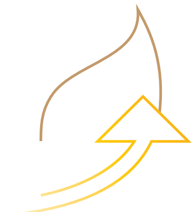
Strong Roots for Growth

Strong Roots for Growth

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

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

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

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

Contents

Financial Highlights

Results

For the year ended December 31

in HK$ Million (unless otherwise stated)	**2017**	2016
Revenue		
Property leasing	**8,354**	8,326
Mainland China	**4,372**	4,427
Hong Kong	**3,982**	3,899
Property sales	**3,420**	5,322
Total revenue	**11,774**	13,648
Net profit attributable to shareholders	**5,314**	3,713
Dividends	**1,089**	1,089
Shareholders' equity	**83,137**	75,658
Per share data		
Earnings	**$3.90**	$2.73
Dividends		
Total	**$0.80**	$0.80
Interim	**$0.19**	$0.19
Final	**$0.61**	$0.61
Shareholders' equity	**$61.0**	$55.5
Net assets	**$109.8**	$101.3
Financial ratio		
Payout ratio	**21%**	29%
Net debt to equity ratio	**3.9%**	4.8%
Debt to equity ratio	**18.7%**	22.5%

Underlying Results

For the year ended December 31

in HK$ Million (unless otherwise stated)	**2017**	2016
Underlying net profit attributable to shareholders	**3,314**	3,772
Earnings per share (Note 1)	**$2.43**	$2.78
Payout ratio (Note 1)	**33%**	29%

Note:

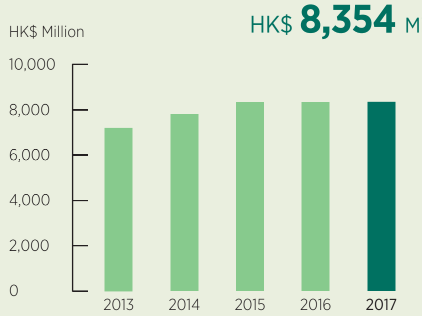
1. The relevant calculations are based on the underlying net profit attributable to shareholders.

Rental Revenue

Overall

0%

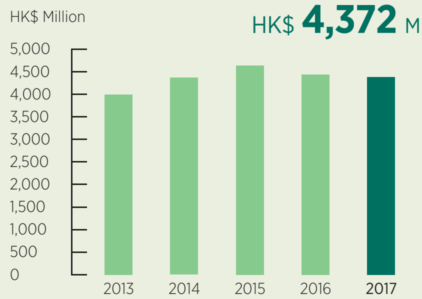
HK$ **8,354** Million



Mainland China

-1%

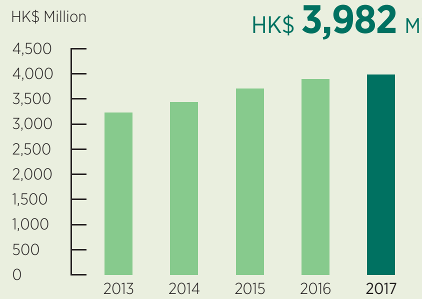
HK$ **4,372** Million



Hong Kong

+2%

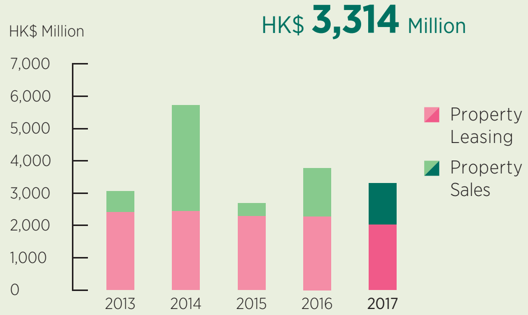
HK$ **3,982** Million



Underlying Net Profit

-12%

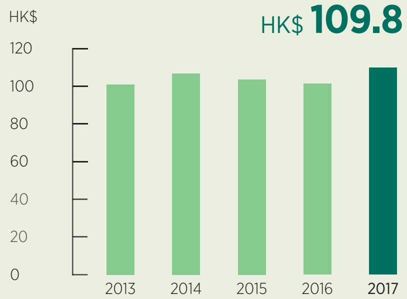
HK$ **3,314** Million



Net Assets per Share

+8%

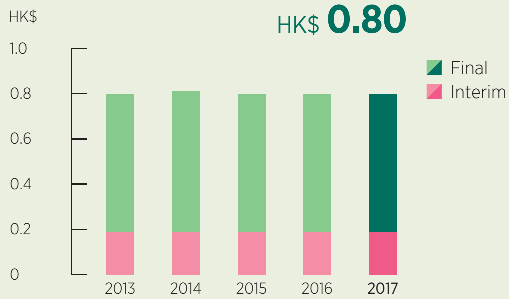
HK$ **109.8**



Dividends per Share

Same

HK$ **0.80**



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

Revenue fell 14% to HK$11,774 million for the year ended December 31, 2017. Net profit attributable to shareholders advanced 43% to HK$5,314 million. Earnings per share rose similarly to HK$3.90.

When excluding all the effects of property revaluation gain, the underlying net profit attributable to shareholders decreased 12% to HK$3,314 million. Underlying earnings per share fell similarly to HK$2.43.

The Board recommends a final dividend of HK61 cents per share. If approved by shareholders, total dividends per share for the year ended December 31, 2017 will be HK80 cents. Final dividend is payable on May 16, 2018 to shareholders of record on May 3, 2018.

Business Review

Much has happened in the past year in Hong Kong and on mainland China, on both political and economic fronts as well as in our industry. Most of these developments should prove favorable for our business.

In Hong Kong, the new Chief Executive Mrs. Carrie Lam took office last July 1. She is expected to continue the land policy of her predecessor, Mr. C.Y. Leung. Namely, she will do her best to procure more land for residential development. We are moving closer to correcting the wrong policy of 2005–2010 when the then administration sold very little land. In the first six months of the government's fiscal year starting April 2017, the budgeted land supply for the entire year has already been met. However, 70% of the land was previously privately held. The government was only able to supply 30%.

Even if this rate cannot be maintained, the joint efforts of the public and private sectors should finally bear fruit. Once land supply is back to a more reasonable level, land prices should moderate, and this will one day slow down the rise of residential prices. When that day will arrive is hard to predict, but it should not be too long a wait.

Few if any major metropolitan areas in the world are like Hong Kong where about 75% of our landmass is covered by vegetation. Approximately 40% of our 1,111 sq. km. is designated as country parks. Only less than 25% of our land is developed. It is reasonable to take, say, 1% to 2% of green land for residential development. Yet there are irrational voices in society that reject this view. It is plain foolishness. Land shortage is at the root of much of our community's social ills. We must strike a balance between buildable land supply and maintenance of park land. No one can have a cake and eat it too.

Another way to create more supply is to reclaim land. Most of our citizens, including this one, are against further reclamation within Victoria Harbor. It is one of the most beautiful harbors in the world, and a key asset of Hong Kong as a world renowned city. However, in parts of Kowloon and especially on the east and west sides of the New Territories, much can be done without destroying our landscape. To be irrationally against all land reclamation, as some of our citizens have become, will only force land prices and eventually residential prices to climb.

Equally critical is that once the supply and demand of land is more or less balanced, the government should begin to build a land bank for future needs. The mistake made in the late 2000's of not preparing a land portfolio from which to draw upon should be avoided. When to sell the land is up to the government, but it must have something to sell when called upon, for it takes time to prepare land for sale. Moreover, if private developers see at some point that the government's inventory is running out, land and apartment prices may both go up sharply. We must preempt that.

That said, no one should expect Hong Kong's residential prices to be cheap in the foreseeable future. Our post-1997 political system has ensured a slower economic growth, as we have experienced in the past two decades. This should in general imply lower property prices. However, there are powerful countervailing forces at work. Chief among them is that many of our fellow citizens from the Mainland would like to own properties in the Hong Kong Special Administrative Region.

In the past three decades or so, wealth creation to the north of the border has been nothing less than spectacular. Usually in the post-war years, some economies can grow tremendously over a short period of time. Post-WWII Western Europe and Japan were two great examples. Reconstruction and development were matters of necessity. The speed of recovery was thus impressive but understandable.

Moreover, two factors made Western Europe and Japan's rise possible and fast. First, both were technologically advanced before the war, providing a good basis on which to rebuild. Second, after 1945, they were both helped by the U.S., which willingly provided capital and favorable policies.

The case of China has some similar characteristics but its climb was perhaps even more amazing. Like Western Europe and Japan, there was a powerful historical background. China began to wane in the mid-Qing Dynasty around 1800. Small foreign armies from Western Europe and the U.S. defeated the giant that previously appeared to be invincible. After the Qing Dynasty ended in 1911, China was embroiled in a civil war, followed by the Japanese invasion in 1931. Full-scale civil war broke out again as soon as victory over the Japanese was achieved in 1945. After the establishment of the People's Republic of China in 1949, the good days turned out to be short-lived. By the late 1950's, the country went into further decline, with many political campaigns culminating in the decade-long Cultural Revolution. In late 1978, Mr. Deng Xiaoping instituted the Reform and Opening-up policy which changed everything.

Rebuilding after a serious war requires little impetus, especially if the country was previously economically advanced. In the case of 1978 China, it had gotten used to weakness and poverty. Yet the will of one man, Mr. Deng, changed all that. He almost single-handedly made the lives of the biggest number of people better by the greatest margin and in the shortest time. No one in history has ever accomplished that and it is doubtful whether another person could emulate his achievement! This is why I believe that he will be remembered as one of the greatest men of the 20th century.

Fortunately, the external environment for the Reform and Opening-up policy was also auspicious. Less than seven years previously, U.S. President Richard Nixon visited China in 1972 thus opening up a relatively long period of rapprochement. Unlike Western Europe and Japan after WWII when the U.S. provided much free assistance, China had to earn every penny by itself. It took full advantage of the then cordial relationship with the U.S. and the West and quickly built up its manufacturing and export machinery, which today rank among the most powerful in the world. From that base, the country has gradually become a global leader in many technologies. Along the way, it has also amassed quite a fortune for its citizens.

From this description, I trust that most of my readers will agree with me that the rise of China is one of the most amazing feats of the 20th century. For us, as a business enterprise operating in this country, its population, economic size, as well as its speed of economic growth have presented us with tremendous opportunities.

Since the 1950's, many Hong Kong people have unspokenly looked down on our Mainland friends because they were poor. All this has gradually changed over the past decade or two, which is 20 some years after China's Reform and Opening-up. Since 1983, the Hong Kong dollar has been pegged at HK$7.8 to US$1. As the Mainland's economy has become stronger, so has its currency. When the exchange rate of the RMB against the U.S. dollar broke through 7.8 in early 2007, one Hong Kong dollar could no longer buy one RMB, and a psychological barrier has been smashed.

Another milestone was passed in 2009 when the total GDP of Shanghai surpassed that of Hong Kong. It is possible that once the 2017 statistics are out, the economy of Shenzhen will likely be shown to be bigger than ours. Guangzhou’s GDP is also expected to pass that of Hong Kong sometime next year. Due to their much larger populations — Shanghai at 24.2 million, Shenzhen almost 12 million and Guangzhou over 14 million versus Hong Kong’s 7.3 million — our GDP per capita at about US$43,500 is still considerably higher than theirs.

Naturally the average Hong Kong citizen does not look at these macro statistics. But to feel their impact, such numbers are unnecessary. Over the past 10 to 15 years, Mainlanders have increasingly come to buy products in our city. At the beginning, mostly daily necessities like toilet paper, diapers, and baby milk powder were carried back, often in sizable quantities. (Knowing how entrepreneurial the average Chinese is, it would not surprise anyone if some of these goods were brought home to be sold at higher prices.)

Then came the purchasers of luxury items such as those sold at our Plaza 66 in Shanghai or Forum 66 in Shenyang. The tax differential makes it a lot cheaper to frequent Hong Kong shops. It is not uncommon for some Mainlanders to visit our city at least once a month for that purpose. Whereas some Hong Kongers resented the shoppers of daily necessities, no one complained about those who buy luxury products. After all, most of us either do not or cannot afford such expensive goods anyway!

My personal moment came about a decade ago. One day my wife and I walked into a high-end fashion store not far from my former office. The saleslady scrutinized us from head to toe and began to speak to us in Mandarin. (In Hong Kong, we mostly speak Cantonese.) When we walked out, I told my wife that we should now be proud — finally someone thinks that we are wealthy!

But our "delight" may be short-lived. In many of the high-end restaurants in our city, Mandarin-speaking customers (i.e. likely coming from the Mainland) outnumber Cantonese-speaking ones (i.e. locals.) Moreover, like other Hong Kongers, my wife and I only order dishes that we like, but our visitors from the north seem to prefer only the most expensive choices on the menu. Who do you think will receive better service from the waiters?! Our place as "second-class citizens" notwithstanding, we are nevertheless happy. For why should we not! Our compatriots have been poor for so long that I, as an ethnic Chinese, am just pleased that they now enjoy a much better living standard.

The most expensive item that Mainlanders buy in Hong Kong is, however, neither jewelry nor costly clothes. Many like to own a residence here. Just as many of the wealthy people in this city bought homes in London, New York, or Tokyo, our Mainland friends with their ever-increasing personal wealth are now venturing beyond their shores. Their first choice is usually Hong Kong. The superrich usually lead the way in buying luxury apartments or even houses. Then other well-to-do's will follow suit and purchase near-luxury units. With tens of millions of middle-class people wanting to buy properties in Hong Kong, how can our residential prices fall in the long term?

Indeed, the economic rise of China has changed the world. To be sure, the place that it first affects is the Mainland and secondarily Hong Kong, which is now reunited with her Motherland. Whereas the per capita income on the Mainland is approaching US$9,000, the number in tier-one and certain tier-two cities is far higher. It was not that long ago when those city dwellers were only buying daily necessities. Today many of them are voracious purchasers of expensive items. It is not uncommon for lines to form in front of shops such as Chanel and Louis Vuitton at our Plaza 66. It can be a daily occurrence and can last for much of the business day. Tier-two cities are also experiencing a rise in personal consumption, although not to the same extent.

With technological advances in the society and qualitative improvements in the economy, China's GDP will continue to rise. It is highly unlikely that the middle-income trap prevalent in Latin America will be experienced in China. While all developing economies have certain common problems, China exhibits significant differences from the likes of Argentina or Brazil. Short on natural resources except human capital and rare earth metals, China is nevertheless strong in education and technology, resulting in the rise of productivity. In the coming decade or two, it may surpass all of the Latin American countries in terms of GDP per capita. A key driver of China's economy will be personal consumption.

This is the basic reason why we believe that our strategy will work very well in the years and decades to come. Every year, tens of millions of people are lifted out of poverty, while many others are brought into the ranks of the middle class. Already China is estimated to have some 300 million of them by international standards. This is almost the size of the entire U.S. population. Of these, many will become purchasers of quality or even luxury products. These are our target customers. The speed at which this group grows is staggering. Indeed the qualitative improvement of the products Chinese companies make and its consumers buy in the coming decade will be one of the biggest economic stories of the country.

Let me turn now to the more recent past. Retail sales in mainland China have recovered well, especially in the high-end sector. There are many reasons for this and here are a few key ones. First, the market has been weak for about five years. The hardest hit was in the luxury goods sector which was important to us. Anti-corruption and anti-opulence campaigns of President Xi Jinping have taken their toll. His actions were absolutely necessary for the long-term health of the economy and the country, but it was a short-term pain for us. On balance, we were very pleased that Beijing took these resolute actions.

Needless to say, not all previous purchasers of luxury goods were corrupt officials. The fast formation and rising prosperity of an affluent class were and still are the main reasons for the robust sales of such products. Years of a weak market must have created pent-up demand. Since the salaries of professionals have never ceased to rise sharply, and many local businesses, big or small, have continued to make money, the cadre of wealthy shoppers must have expanded considerably during the past few years. The combination of these two forces — pent-up demand and the enlargement of potential customers — has contributed to today's remarkable climb in luxury goods sales as witnessed in some of our shopping malls.

There are other more technical reasons for the recovery. For many years, the prices for the same luxury items on the Mainland were much higher than in Europe or in the U.S. High import duty was one main factor. Brand owners also charged more in China since they could get away with it. This began to change in 2015 when Chanel led the charge to equalize prices. China is still more expensive than most other places but the differential has shrunk to such an extent that traveling overseas to shop is no longer as lucrative. The fact that terrorists have been increasingly active in Western Europe over the past few years has also discouraged some Chinese to travel and shop abroad.

Moreover, before 2014, the RMB was basically strengthening which encouraged buying overseas. Between 2015 and 2016, the RMB changed its course. That was also the time when the domestic market for luxury goods was lethargic. In fact, the weak RMB made buying foreign products anywhere more expensive. Since early 2017, the RMB has been strengthening again. Will shoppers pick up the old habit to buy overseas? Some may, but not most of them. Price equalization in recent years has taken a lot of incentives away.

Because of all these factors, I expect the retail sector to perform well in the coming years. Nevertheless, it will take time for the higher sales by our tenants to be reflected as higher rents for us. This is because our lease contracts are usually signed for a period of three to five years. I expect that in 12 to 18 months' time, the positive effects will flow through to our revenue and profit.

The Hong Kong retail market began to recover after a lull of two to three years. Compared to the same period in the previous year, the growth rate in the second half of 2017 was much faster than the first half. Of late the number of Mainland visitors increased again. This must be an important reason for the rise in retail sales and rents.

The above analyses of the various markets where we operate explain our set of results: Mainland rental income held steady while that in Hong Kong rose slightly.

For Hong Kong property sales, we sold the last unit of The HarbourSide in early 2017 and parted with almost all apartments at The Long Beach. The profit margin kept rising as we sold down our inventory. We will let go of the Blue Pool Road semi-detached houses whenever purchasers appear with offers acceptable to us. The process is not fast but steady.

Prospects

The 19th National Congress of the Communist Party of China held last October removed uncertainties from the market. Going forward, the picture will be even clearer in March when the National People's Congress convenes and a new government lineup is announced. Nevertheless, sufficient clarity is already in place. As long as social stability can be maintained, the economy should continue to progress. An annual GDP growth of 6% to 7% can be expected in the next few years. It will not surprise me if it maintains at above 6.5% for the next year or two.

This is good news for us. Together with a more favorable environment, as reported earlier for retail businesses especially in the high-end sector, I do see better days ahead. All these factors will coincide with what I wrote six months ago, that from 2019 to 2020, we will open many new facilities and complete extensive upgrade works at others — Spring City 66 in Kunming, the second office tower of Center 66 in Wuxi, The Peak Galleria in Hong Kong, a Conrad Hotel in Forum 66 in Shenyang, Grand Gateway 66 in Shanghai, and Heartland 66 in Wuhan.

Given the above, and together with the organic growth of existing properties, our rental revenue should increase nicely during the next decade, and profit therefrom should grow even faster. Whereas we have encountered strong headwinds in the past seven years, we may enjoy some tailwinds in the coming few years.

It is useful to add one more point to the understanding of our recent past which should help us understand our future. I first told the media in late 2011 that we detected a little chill in the Mainland economy and in our industry. Several months later, I wrote likewise to our shareholders. However, many people in the market were unaware of this for another year or two. This is why when we opened our first four malls outside of Shanghai — one each annually beginning 2010, namely Palace 66 in Shenyang, Parc 66 in Jinan, Forum 66 in Shenyang, and Center 66 in Wuxi, we were able to obtain good rental income. If those leases were negotiated in 2013 or after, rents therefrom would have been much lower.

Call it luck or whatever, we were able to enjoy reasonably good rents for a while. However, soon after we opened the malls, our tenants encountered a serious market downdraft. With the rents they had to pay, it became difficult for them to perform as they had hoped. We began to hear cries for lower rents. These were contrary to legal contracts but nonetheless a cruel commercial reality. Without making concessions, we would have faced a serious risk of premature departures by some tenants.

From 2013 onward, when the earlier leases were due for renewal, downward rent adjustment in many cases became inevitable. Even with certain cautious reductions, vacancy rates still rose. We did not have a monopoly of this plight, for every landlord experienced likewise. Our difficulties might have seemed more severe, because our good name and excellent track record had enabled us to negotiate higher rents than most before 2013.

As I have written several times in the past few years, to be sure we had certain internal management issues that needed to be addressed. These began in the late 2000's when we were building malls in earnest. The shortage of professional manpower affecting the construction team soon spread to the leasing team. With so many huge projects being erected at the same time, the expansion of our management team simply could not keep pace.

It is true that the shortage of managerial staff made the teething problems common to all newly-opened properties more painful. However, it did not explain all the difficulties. Consider the fact that our two Shanghai properties which did not have serious management issues also experienced the same winter with concomitant weak results. If the market conditions then had been as strong as in the 2000's or today, all sins would have been forgiven. This was why I considered the market in the past few years a "perfect storm."

All that is now water under the bridge. We are pleased that many of our managerial problems have been solved, or are at least being solved. Equally pleasing is the fact that the macro environment has changed for the better.

The period between 2010 and 2016 could be considered as the first phase of our venturing outside of Shanghai, with many hundreds of thousands of square meters added to our rental portfolio. After a brief hiatus, 2019, 2020 and beyond can be considered as phase two. I believe that our experience in the two periods will be very different. The first was extraordinarily difficult; the next should be a lot more agreeable. Every factor affecting our business, whether endogenous or exogenous, seems to be much more favorable today.

In the more immediate term, rental income from both Hong Kong and the Mainland is expected to rise gently. From 2019 onward, revenue growth should pick up, with rental profit following soon thereafter.

It is safe to assume that we will sell out The Long Beach in the coming months. After all, we only have a few apartments remaining. With luck, we should also be able to part with more houses at Blue Pool Road. Thereafter, we will become, for the time being, a pure property rental company, until high-end luxury condos at some of our Mainland developments — Forum 66 in Shenyang, Center 66 (Phase Two) in Wuxi, Spring City 66 in Kunming, and Heartland 66 in Wuhan — are ready for sale.

Long-term observers of this Company know that whenever the share price of our publicly listed major subsidiary, Hang Lung Properties Limited (HLPL), is down, we buy the scripts. Inasmuch as we are one of the most transparent entities on the Hong Kong Stock Exchange, no one knows the intrinsic value of these shares as well as this management does. We consider it an excellent opportunity to acquire more at today's price. HLPL (together with this Company) underperformed before 2002. Thereafter, it became a market darling until 2011. I cannot predict how hot our shares will become in the coming few years, but management does believe that sooner rather than later, our intrinsic value will be recognized anew by the market. I await the arrival of that day.

Before 2001, my letters to the shareholders of this Company were much more substantial than those for HLPL. Around that time, we clarified the respective functions of the two entities, where HLPL became the operating arm, and all new real estate projects were put into it. As such, beginning around 2002, my reports for HLPL became much longer. Moreover, before 2011, when we changed our fiscal year-end from June 30 to December 31, my letter at the time of annual results was much more substantial than the interim one. So much so that I feared that many people would only read the end-of-year report of HLPL, and overlook the year-end letter of this Company and the mid-year one of both entities.

Chairman's Letter to Shareholders

Believing that for good governance, the chairman of a public company should communicate more often and in a more timely fashion with shareholders, I began in 2012 to even out the length of the interim and the final reports. After all, the year-end one for HLPL had become too long for me to write and for shareholders to digest. To ensure that our shareholders are aware of the change, I informed them about it in my 2014 interim report of HLPL. In fact, there were a few occasions when the mid-year piece was longer than the year-end one.

Over the past decade or so, I have also gradually enriched the content of this report. Whereas, in general, the letter to HLPL shareholders concentrated more on operational matters and market analyses, I tried to cover macro issues here as well as my views on the Hong Kong residential sector. Nevertheless, it is impossible to cover everything in both reports each year, so I may from time to time refer my readers to the letter to HLPL shareholders. Furthermore, I always cover one or two specific topics of interest to shareholders in each report. It is unlikely that I will return to the same subject each year or half yearly. As such, I may from time to time refer my readers to a previous letter of either company. All such reports can be found in our company website.

A case in point: this year I covered top management succession and board composition, among other issues, in my letter to HLPL shareholders. I encourage you to read it.

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

Review of Operations

Business Overview

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

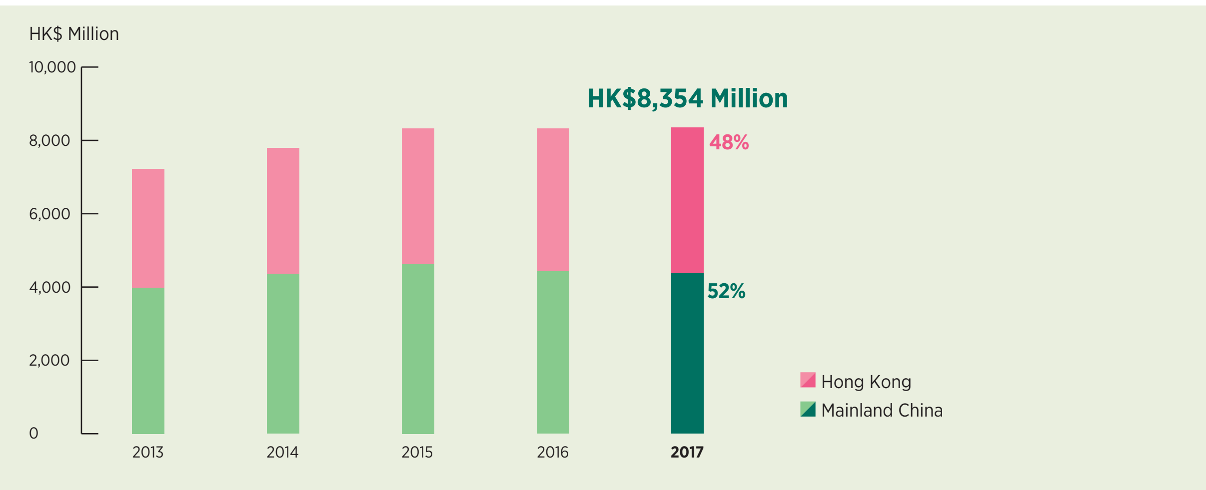
In mainland China, gross domestic product (GDP) growth for 2017 was 6.9%. The market has started to recover particularly in the luxury sector in tier-one cities. The recovery, which usually begins in tier-one cities, will spill over to other cities. Some brands are beginning to expand again. The government's 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 drop for 24 consecutive months. Mainland tourists are returning although their places of origin and spending patterns are noticeably different from previously, leading to lower demand for trades such as jewelry & watches and high-end fashion.

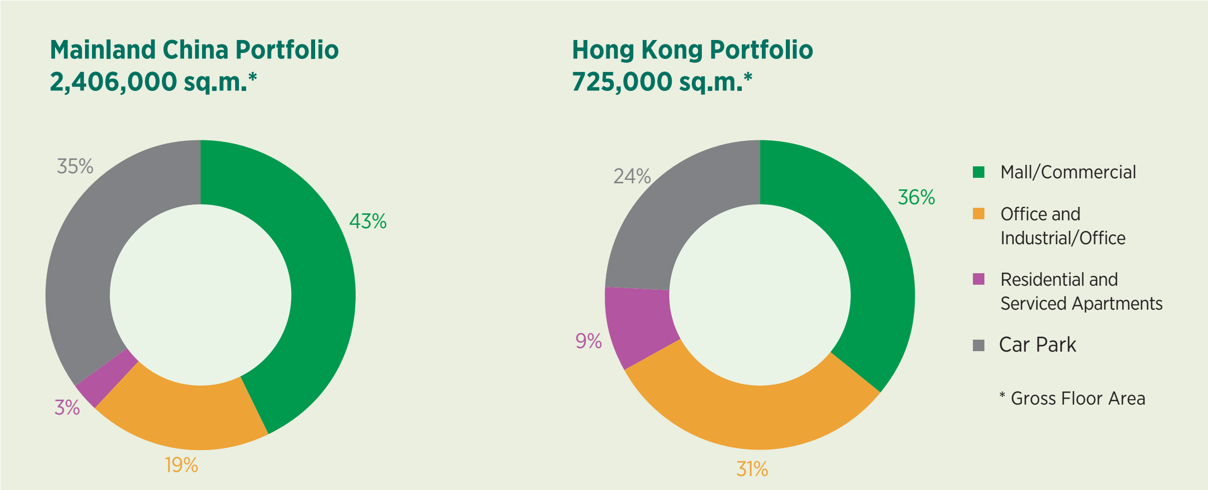
Our retail properties in Hong Kong held their ground while other segments were growing moderately. Despite a rental interruption due to asset enhancement programs for Kingston in Causeway Bay and The Peak Galleria, rental income of our Hong Kong leasing portfolio recorded a mild growth year-on-year.

For the financial year ended December 31, 2017, total revenue of our leasing properties was flat at HK$8,354 million. Revenue of the Mainland portfolio stayed flat in RMB terms and that of the Hong Kong leasing portfolio grew 2% year-on-year.

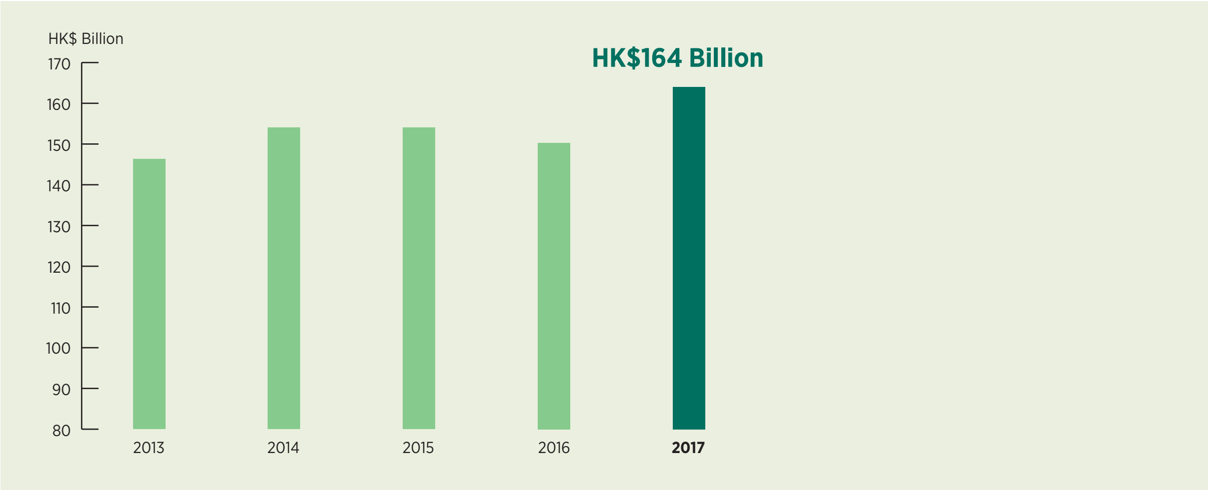
Property Leasing Revenue



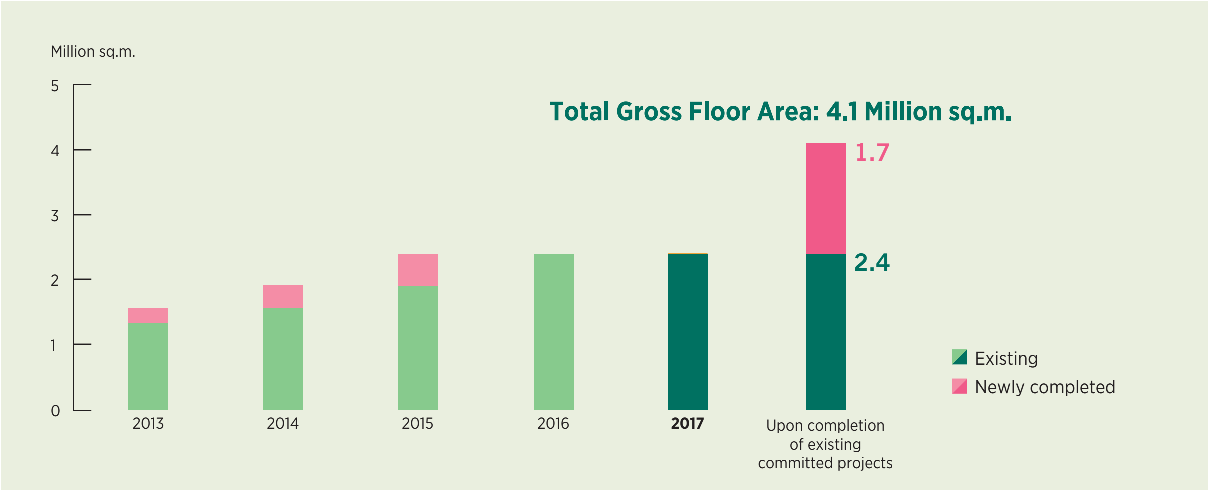
Area of Investment Properties



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



Area of Investment Properties in Mainland China



Review of Operations

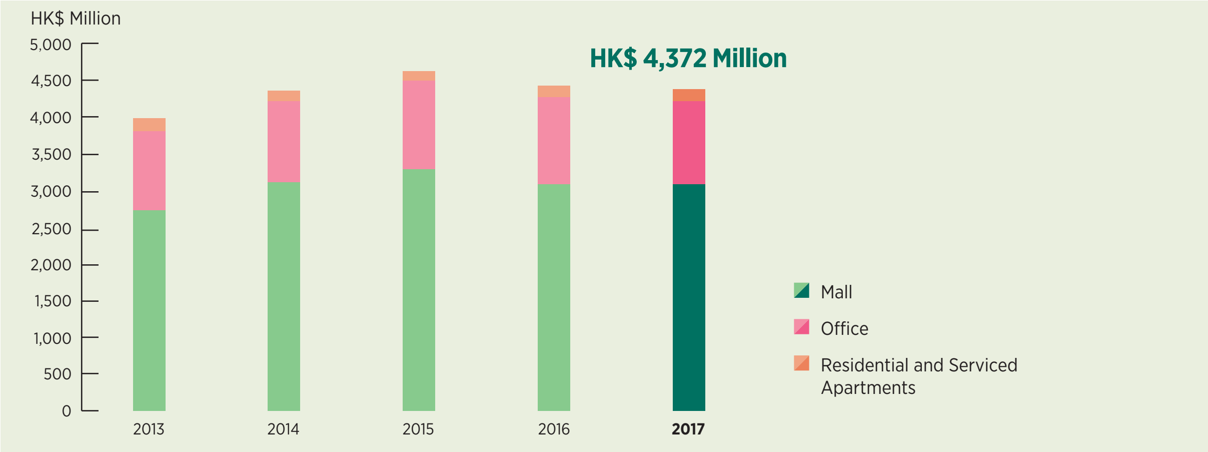
Mainland China Property Leasing

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	**1,130**	1,187	**86%**	78%
Residential and Serviced Apartments	**157**	161	**86%**	92%
Total	**4,372**	4,427	**85%**	82%

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.

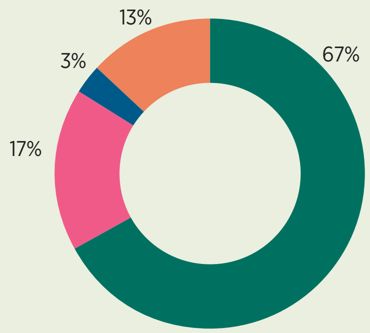
Grand Gateway 66, Shanghai

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.

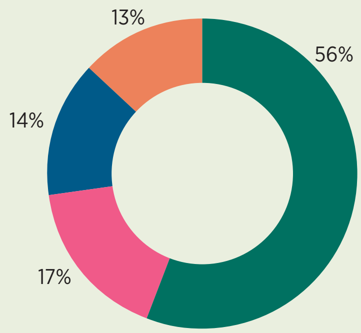
The complex's Office Tower houses numerous world-class corporations listed on Fortune Global 500, while the high-end serviced apartments offering more than 600 suites with a luxurious array of private clubhouse facilities have long been the residential choice for expatriate executives in global enterprises.

- 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



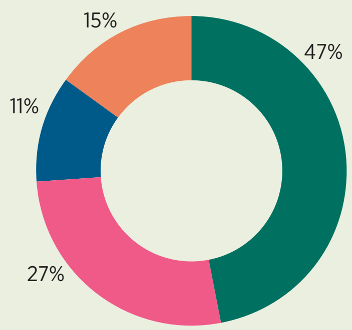
Key Statistics

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



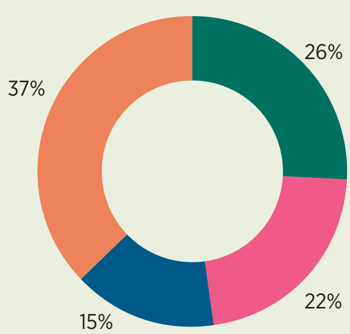
109,307
N/A
N/A
864
90%
N/A
N/A
210

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 a 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

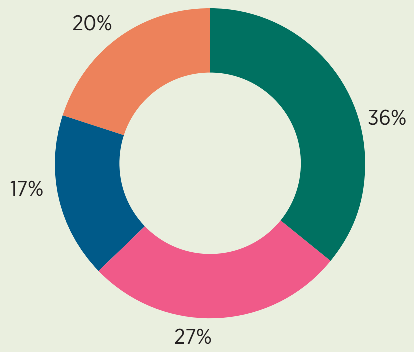
Mainland China Property Leasing

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.

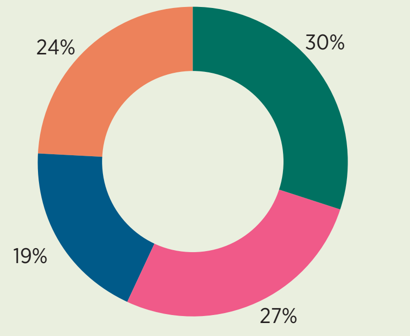
Commercial Segment Distribution (by Leased Floor Area)



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

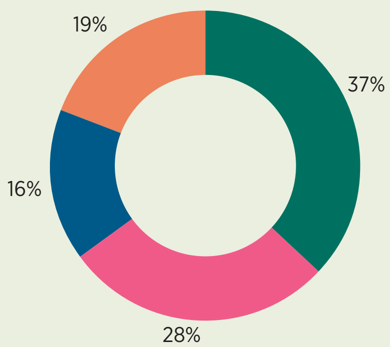
Key Statistics

		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)

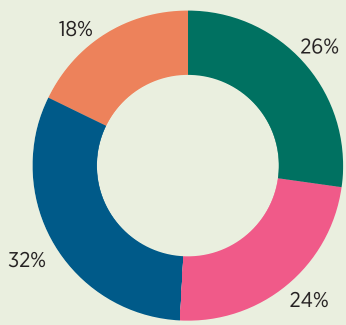


152,831
N/A
N/A
800
89%
N/A
N/A
265

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 & 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.

Office Tower

Overall demand has remained steady amid an influx of new supply in peripheral areas. The occupancy rate dropped briefly in mid-year due to tenant relocation. However, the vacated space was refilled with the recruitment of two prominent multinational corporations, Mitsubishi Chemical and Gymboree, and a variety of quality domestic tenants. The year saw upgrading and renovation works to the office building lobby, standard floors and elevators, all proceeding on schedule for completion in the second quarter of 2018.

Mainland China Property Leasing

It is anticipated that with the completion of the upgrading of office hardware, the performance of the Grand Gateway 66 Office Tower will regain momentum in 2018.

Serviced Apartments

We continue to upgrade the hardware of serviced apartments including the outdoor children's amusement park and the clubhouse kitchen. Residents' participating rates for different interest classes and festive activities have been on the rise, which contributed to the consistently steady occupancy and rental yields amid the noise and distraction of construction activities taking place in the neighborhood and the mall's own renovation program. In addition, the launch of the Room Management System has brought additional convenience to residents including booking for function rooms, SMS notifications, and a check-in/out function that saves time for residents while also recording their preferences for personalized service.

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

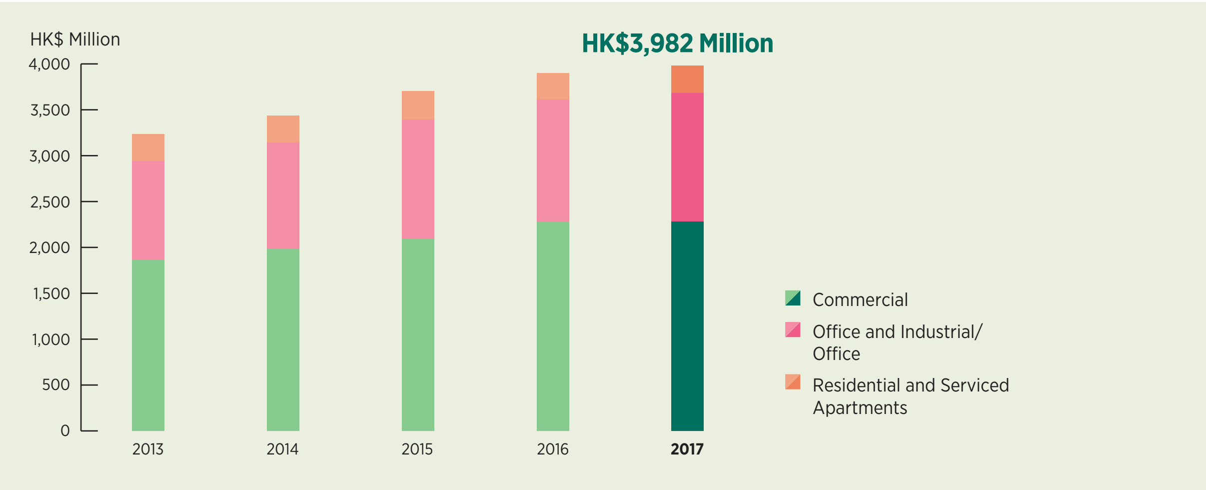
The prevailing economic climate in the city has cast the shadow of negative growth on all areas of business. In the commercial leasing sector, the sluggish economy has dented the confidence of major international brands in establishing a retail presence in the city. This situation has limited Olympia 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.

Review of Operations

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 4%.

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	**135**	135
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**	78
Cheung Sha Wan, Kwai Chung, Tsuen Wan and Tuen Mun	**91**	97
Total	**725**	737

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	**2,283**	2,275	**97%**	96%
Office and Industrial/Office	**1,396**	1,336	**95%**	92%
Residential and Serviced Apartments	**303**	288	**80%**	76%
Total	**3,982**	3,899	**94%**	91%

* Including gross floor area of car parks

Hong Kong Property Leasing

Brief on Major Properties

Fashion Walk
Causeway Bay

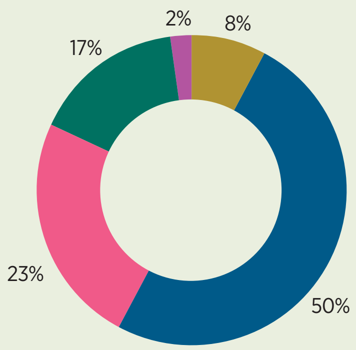
Fashion Walk is the distinctive shopping destination across three main areas, namely Paterson, Kingston and Food Street, offering the latest trends in fashion, gastronomy and lifestyle in a magnificent setting. It houses numerous innovative concept stores and flagships of celebrated international fashion 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

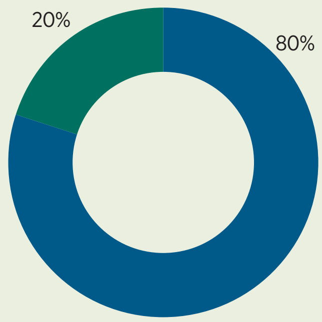
Offering a wide range of travel, fashion wholesale and medical services, Hang Lung Centre is a retail and commercial complex enviably situated at the heart of Causeway Bay. It welcomed H&M's first and the largest global flagship in Asia in 2015, while the Travel Zone is now optimized for customers to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

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

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



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



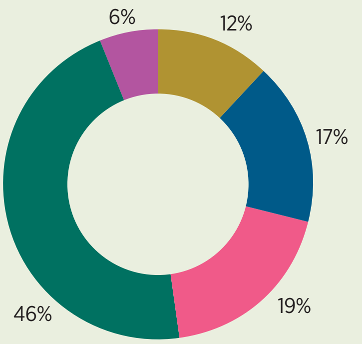
Key Statistics

		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)

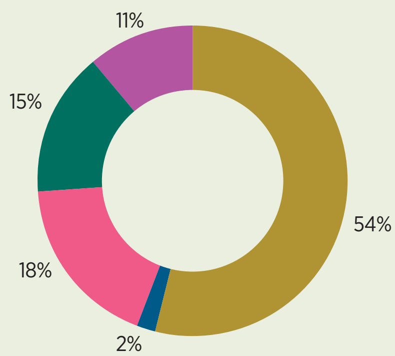


12,446
N/A
N/A
493
40%
N/A
N/A
21

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

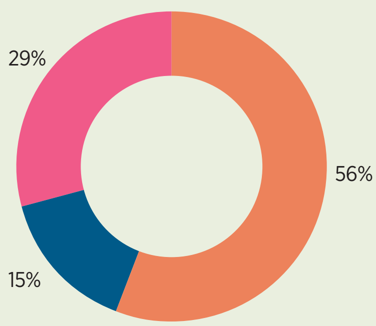
The Standard Chartered Bank Building is a Grade-A office tower in the commercial district of Central. In addition to the headquarters of Hang Lung Properties and the very first digital branch of Standard Chartered Bank Hong Kong, prestigious fashion label Escada and high-end Chinese restaurant Mott 32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

Grand Plaza Mongkok

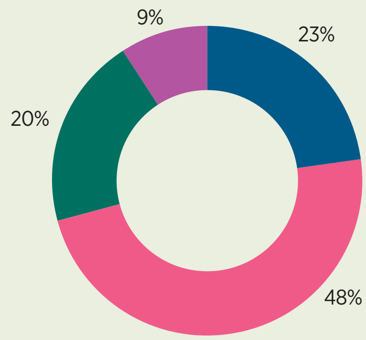
Enviably located right next to the MTR Mongkok Station on Nathan Road, Grand Plaza houses two office towers and a commercial podium. It is home to a stellar line-up of international watch and jewelry brands, concept stores as well as fashion and lifestyle labels. The dedicated Dining Floors feature 20-plus 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)
- Department Store
- Bank
- Others

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



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



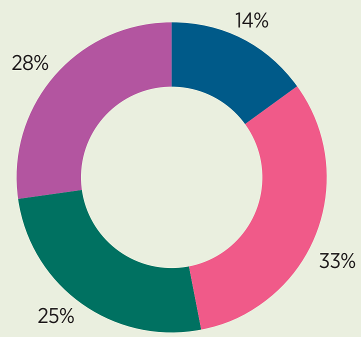
Key Statistics

		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)

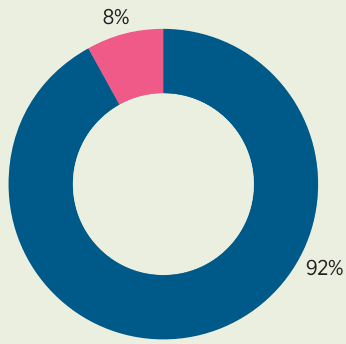


49,006
N/A
N/A
620
99%
N/A
N/A
258

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.

Review of Operations

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 trade 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, Carmel-on-the-Hill and Bayview Garden. The commercial accommodation and car parking spaces at Carmel-on-the-Hill and Bayview Garden were successfully sold through public tender in October and December respectively. 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. We have strengthened our management and streamlined the operations to meet the needs of the expanding business. Our world-class facilities are well positioned to benefit from the recovery. 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 the 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, various 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

City	CENTER 66 Wuxi	FORUM 66 Shenyang	SPRING CITY 66 Kunming	HEARTLAND 66 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.

Review of Operations

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.)	% Held by The Group	Stage of Completion	Expected Completion Year
MAINLAND CHINA							
SHENYANG							
Forum 66	Qingnian Da Jie Shenhe District	92,065	M/H/O/S	574,091	55.7%	Hotel fitting-out	2019 onwards
WUXI							
Center 66 (Phase 1)	Renmin Zhong Lu, Liangxi District	37,324	O	52,261	55.7%	Superstructure	2019 onwards
Center 66 (Phase 2)	Jiankang Lu, Liangxi District	16,767	M/H/O/S	108,980	55.7%	Planning	
KUNMING							
Spring City 66	Dongfeng Dong Lu, Panlong District	56,043	M/O/S	432,388	55.7%	Superstructure	2019 onwards
WUHAN							
Heartland 66	Jinghan Da Dao, Qiaokou District	82,334	M/O/S	460,000	55.7%	Superstructure	2019 onwards

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

B. Residential Properties Completed For Sale

At December 31, 2017

	Location	Site Area (sq.m.)	Total Saleable Area (sq.m.)	% Held by The Group	No. of Residential Unit for Sale	No. of Car Parking Spaces for Sale
HONG KONG						
23-39 Blue Pool Road	23-39 Blue Pool Road, IL 5747	7,850	6,391	55.7%	15	30
The Long Beach	8 Hoi Fai Road, KIL 11152	20,200	1,190	55.7%	10	–

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 & IL749	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
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

	Location	Lease Expiry	Total Gross Floor Area (sq.m.)# Commercial/ Mall	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
NGAU TAU KOK						
Amoy Plaza	77 Ngau Tau Kok Road, NKIL 53, NKIL 1482, NKIL 2660 & NKIL 3947	2047	49,006	–	–	620
CHEUNG SHA WAN, KWAI CHUNG AND TSUEN WAN						
822 Lai Chi Kok Road	822 Lai Chi Kok Road, NKIL 5568	2047	–	9,004	–	73
9 Wing Hong Street	9 Wing Hong Street, NKIL 6229	2047	–	35,223	–	95
Laichikok Bay Garden	Shops 1A1, 1A2, 5A, 6A & 6B, Lai King Hill Road, Lot 3336 of SD 4	2047	3,109	–	–	172
TUEN MUN						
Tai Hing Gardens	11 Tsun Wen Road and 10A Ho Hing Circuit, Tuen Mun, TMTL 312	2047	10,970	–	–	387
Luen Cheong Can Centre	8 Yip Wong Road, Tuen Mun, Lot1169 in DD131	2047	–	7,856	–	37
MAINLAND CHINA						
SHANGHAI						
Grand Gateway 66 Gardens 1 & 2	2118 Hua Shan Lu, Xuhui District	2063	–	–	64,900	–
Grand Gateway 66	1 Hong Qiao Lu, Xuhui District	2043	120,188	67,200	18,300	835
Plaza 66	1266 Nanjing Xi Lu, Jing'an District	2044	53,700	159,555	–	804
SHENYANG						
Palace 66	128 Zhongjie Lu, Shenhe District	2057	109,307	–	–	864
Forum 66	1 Qingnian Da Jie, Shenhe District	2058	101,960	144,677 (excluded hotel)	–	2,139
JINAN						
Parc 66	188 Quancheng Lu, Lixia District	2059	171,074	–	–	789
WUXI						
Center 66 (Phase 1)	139 Renmin Zhong Lu, Liangxi District	2059	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

Financial Review

Consolidated Results

Total revenue of Hang Lung Group Limited (the Company) and its subsidiaries (the Group) decreased 14% to HK$11,774 million for the financial year ended December 31, 2017 because of lower contribution from property sales due to fewer residential units sold this year. Revenue of property leasing was flat at HK$8,354 million, but was up 3% when excluding areas closed for asset upgrading. Income from property sales decreased 36% to HK$3,420 million. Total operating profit decreased 11% to HK$8,312 million.

Underlying net profit retreated 12% to HK$3,314 million. Net profit attributable to shareholders increased 43% to HK$5,314 million, after including a revaluation gain on investment properties. Earnings per share increased similarly to HK$3.90.

Revenue and Operating Profit

	Revenue			Operating Profit		
	2017 HK$ Million	2016 HK$ Million	Change	**2017 HK$ Million**	2016 HK$ Million	Change
Property Leasing	**8,354**	8,326	–	**6,074**	6,129	–1%
Mainland China	**4,372**	4,427	–1%	**2,734**	2,814	–3%
Hong Kong	**3,982**	3,899	2%	**3,340**	3,315	1%
Property Sales	**3,420**	5,322	–36%	**2,238**	3,209	–30%
Total	**11,774**	13,648	–14%	**8,312**	9,338	–11%

Dividend

The Board of Directors has recommended a final dividend of HK61 cents per share for 2017 (2016: HK61 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 HK19 cents per share (2016: HK19 cents), the full year dividends for 2017 amounted to HK80 cents per share (2016: HK80 cents).

Property Leasing

In 2017, both Hong Kong and the Mainland witnessed signs of recovery in retail sales, despite pressure on rents from leases entered into during the peak period and a negative reversion from trade diversification necessitated by a 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 drop for 24 consecutive months. Mainland tourists are returning although their places of origin and spending patterns are noticeably different from previously, leading to lower 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 was flat at HK$8,354 million. Revenue of the Mainland portfolio 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 RMB3,788 million, but was up 4% when excluding areas closed for asset upgrading. Operating profit dropped 1% to RMB2,373 million. Average margin was 63%.

Rental income from our eight malls in mainland China rose 1% to RMB2,672 million. After the completion of the asset enhancement program, both rental income and retail sales at Shanghai Plaza 66 mall showed a strong growth, of which the rental increase could more than cover the rental interruption due to the asset upgrading works at Shanghai Grand Gateway 66 mall. 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 five office towers at Shanghai Plaza 66 and Grand Gateway 66, Shenyang Forum 66 and Wuxi Center 66 decreased 3% to RMB980 million. At Plaza 66, transitional voids were associated with a major tenant relocation between the office towers which was completed in October 2017. The enhancement works at Grand Gateway 66 office tower has commenced as part of the asset enhancement programs. The office towers at Forum 66 and Center 66 both collected more in rents with increased occupancy.

Financial Review

Mainland China Property Leasing Portfolio

Name and City of the Property	Revenue 2017 RMB Million	2016 RMB Million	Change	Occupancy Rate at Year-end 2017 Mall	Office
Shanghai Plaza 66	**1,409**	1,305	8%	96%	89%
Shanghai Grand Gateway 66	**1,241**	1,343	–8%	77%#	90%
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	**3,788**	3,785	–		
Total in HK$ Million equivalent	**4,372**	4,427	–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 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 held on September 8, 2017 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. Plaza 66 mall's positioning as the home to luxury was further strengthened by the expansion of Dior into Dior Maison, a 3-story flagship store, and the opening of new Loro Piana and LOEWE stores in 2017. 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.

Revenue of the two office towers at Plaza 66 dropped by 8% due to transitional voids associated with the relocation of a major tenant from Office Tower One to Tower Two during the year and the phased re-letting of some recent lease expiries towards year end. Occupancy rate fell 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 be completed by mid-2018. The remaining enhancement work will have a minimal adverse impact on the revenue of Plaza 66.

- *Shanghai Grand Gateway 66*

Total revenue of Grand Gateway 66 decreased 8% to RMB1,241 million, but was up 4% when excluding the disruption caused by the major asset upgrading program at the mall.

The 3-year major upgrading program at the mall commenced 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. Some of the affected areas will re-open in phases starting from mid-2018 to minimize the adverse impact on income and profit. This carefully planned enhancement will strengthen the mall's long-term competitiveness and profitability.

Revenue of Grand Gateway 66 mall decreased 9% to RMB883 million due to the disruptions caused by the upgrading program. If excluding the affected areas, rental revenue advanced 7%. Occupancy rate retreated 19 points to 77% because of the renovation.

Rents of the office tower decreased 4% because of the transitional void in the first half of 2017. The upgrading works of the tower have commenced which will have a minimal adverse impact on the revenue of Grand Gateway 66. Occupancy rate advanced one point to 90% by the end of 2017.

Revenue of residential and serviced apartments slipped 1%. Occupancy rate was down six points to 86% by the end of 2017 as affected by the renovation works at the mall and operations at nearby construction sites.

- *Shenyang Palace 66*

Rental income of Palace 66 mall increased 9% to RMB155 million. Occupancy rate slipped 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 dropped 7% to RMB213 million.

Forum 66 mall maintained its high-end positioning but was hit by the sluggish spending on luxury goods 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.

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

Financial Review

- *Jinan Parc 66*

Parc 66 mall collected 3% more in rents to RMB271 million. Occupancy increased 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 sales increased by 12% against a year ago.

- *Wuxi Center 66*

Total revenue of Center 66 decreased 2% to RMB219 million, but was up 1% when excluding 9% of the mall's leasable area 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 driven by new lettings and tenant expansions.

- *Tianjin Riverside 66*

During the course of tenant reshuffling, income of Riverside 66 mall decreased by 5% year-on-year. The ambience of Level 1 of the mall was enhanced by 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 properties advanced 2% and 1% to HK$3,982 million and HK$3,340 million, respectively. Overall rental margin was at 84%. If excluding areas closed for asset upgrading, revenue would increase 4% year-on-year. The performance was satisfactory 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% 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	**2,283**	2,275	–	97%
Offices and Industrial/Offices	**1,396**	1,336	4%	95%
Residential & Serviced Apartments	**303**	288	5%	80%
Total	**3,982**	3,899	2%	

- *Commercial*

Revenue of the Hong Kong commercial portfolio was flat at HK$2,283 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 effect of renovation. Overall occupancy was up one point to 97% by the end 2017.

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% when excluding affected areas. The final phase of the asset enhancement program of the Causeway Bay retail portfolio, covering Kingston, commenced in early 2017. The enhanced areas have been re-opened progressively since late 2017. This 100,000 square feet of rejuvenated retail space is a hub of 16 special concepts which 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.

Benefitting from positive rental reversions and tenants upgrade, rental income of **Kornhill Plaza in Hong Kong East** grew by 9%. Hong Kong's first MX4D technology-enabled movie was launched at the upgraded Grand Kornhill Cinema this year. Together with the refurbished AEON STYLE and the additions of more quality food & beverage tenants, the ambience and offerings of the mall were further uplifted. The mall was fully let by the end of 2017. Retail sales increased by 11% year-on-year.

Revenue of our leasing properties in **Mongkok**, mainly comprising Grand Plaza and Gala Place, was stable year-on-year. The "Where Trends Meet" program was launched to enhance the profile of our malls. Decathlon, a world-famous sports brand from France, unveiled its first flagship store in Hong Kong at Grand Plaza. Together with the opening of the flagship store of Goji Studios, a unique fitness and wellness center, at Grand Plaza, the sport element of Grand Plaza was strengthened. The retail spaces were virtually fully leased by the end of 2017. Total retail sales of our Mongkok properties increased by 10% over a year ago.

Rental income of **Amoy Plaza in Kowloon East** increased by 4% mainly driven by positive rental reversions and tenant upgrades in the mall. A major reshuffle of the tenant mix was undertaken in 2016 to improve its position as an attractive one-stop shopping, dining, entertainment and lifestyle hub. The mall launched its "Food Waste Recycling Service" program to all its food & beverage tenants and various environmental protection measures in order to promote the sustainability of the community.

The Peak Galleria commenced a 3-year renovation in March 2017. Phase 1 of the program, 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 new concepts of trade and excitements. 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. 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*

Driven by positive rental reversions and higher occupancy rate, revenue of our Hong Kong office portfolio advanced 4% to HK$1,396 million. By the end of 2017, overall occupancy rate increased three points to 95%. Our offices in Central and Causeway Bay posted a 7% and 4% rental growth, respectively. The Mongkok offices collected 5% more in rents.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments advanced 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. Property sales revenue amounted to HK$3,420 million, down 36% year-on-year because fewer residential units were sold in 2017. The sold units 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. The overall profit margin realized was 65%.

As at December 31, 2017, the inventory of properties available for sale included 15 semi-detached houses at 23-39 Blue Pool Road, 10 units of The Long Beach and a small number of car parking spaces. The total book cost of these properties was HK$1,634 million.

During the year, 257 car parking spaces at The Long Beach were sold and the resulting 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 in the retail arcade and car parking spaces at Carmel-on-the-Hill in Hong Kong. The transaction was completed in January 2018. In December 2017, we also concluded an agreement with another third party to part with our entire interest in the commercial units, kindergarten premises and car parking spaces at Bayview Garden in Hong Kong. This transaction is expected to be completed in March 2018. The profit from sale shall not be recognized until the transaction is completed. Accordingly, the investment properties of these two assets were 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

As at December 31, 2017, the investment properties of the Group were revalued by Savills, an independent valuer. The total value of the investment properties was HK$142,406 million at the year-end of 2017. The value of the Hong Kong portfolio was HK$64,004 million. The total value of the properties in mainland China amounted to HK$78,402 million.

For the year ended December 31, 2017, an overall revaluation gain of HK$3,085 million was recorded (2016: loss of HK$254 million), representing a 2% year-on-year growth. The Hong Kong portfolio had a revaluation gain of HK$3,352 million. The value of our properties in mainland China decreased by HK$267 million during the year mainly because of lower valuation at Forum 66 in Shenyang and Olympia 66 in Dalian.

On November 20, 2017, the Company's listed subsidiary, Hang Lung Properties Limited (HLPL), consolidated its interest at Amoycan Industrial Centre (AIC) in Ngau Tau Kok, Kowloon by acquiring four units at AIC from a fellow subsidiary at a total consideration of HK$225 million. After the acquisition, HLPL's interests in AIC reached 84.85%. This was an important step for HLPL to prepare for the re-development of AIC. In December 2017, an application for a Land Compulsory Sale for re-development for the remaining 15.15% interests in AIC was submitted to the Lands Tribunal. A total revaluation gain of HK$798 million from AIC was recorded based on the re-development valuation approach.

Property Development and Capital Commitment

The total value of investment properties under development was HK$21,592 million as at December 31, 2017. They represented 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 well. 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 the progress is satisfactory.

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

The conversion of the upper 19 floors of the office tower at Shenyang Forum 66 into a five-star Conrad hotel is making good progress. 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. This hotel will have 315 keys and is expected to open in 2019.

Construction of the second office tower at Wuxi Center 66 is in progress and is scheduled for completion in mid-2019. This 30-story tower will have a gross floor area of 52,000 square meters. It is being built above the southeastern part of the Center 66 mall. About 9% of the leasable area of Center 66 mall has been vacated while the new tower is being built. It is planned that the vacated area will re-open in the fourth quarter of 2018.

Financial Review

In May 2017, we took possession of land for Wuxi Phase 2 development. This plot of land with 16,700 square meters is planned mainly for serviced apartments. The master layout plan is being finalized. The testing piling works were started in November 2017.

These projects represented the majority of the Group's capital commitments at the reporting date, amounting to HK$36 billion. They will be completed in phases over a number of years. The Group has a solid base of recurrent income and ample financial resources to meet the funding requirements of the projects and to seize new investment opportunities as they arise.

Liquidity and Financial Resources

The Group centrally manages 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 the Group 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, the Group had total cash and bank balances of HK$22,223 million (December 31, 2016: HK$24,524 million). All deposits are placed with banks with strong credit ratings and 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	**12,805**	57.6%	2,950	12.0%
RMB	**9,408**	42.3%	21,563	87.9%
USD	**10**	0.1%	11	0.1%
Total cash and bank balances	**22,223**	100%	24,524	100%

As at December 31, 2017, the amount of undrawn committed banking facilities amounted to HK$15,009 million. The available balance of the USD3 billion MTN Program was equivalent to HK$10,645 million.

- *Financing Management*

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

In September 2017, the Company's listed subsidiary, Hang Lung Properties Limited, submitted an application 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 the Group were HK$28,039 million. The lower debt balance compared to last year was mainly the result of prepayment 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	**3,515**	12.5%	8,145	26.2%
Floating rate RMB bank loans	**11,814**	42.1%	10,345	33.2%
Fixed rate bonds	**12,710**	45.4%	12,629	40.6%
Denominated in USD	**7,816**	27.9%	7,756	24.9%
Denominated in HKD	**4,894**	17.5%	4,873	15.7%
Total borrowings	**28,039**	100%	31,119	100%

At the balance sheet date, the average tenor of the entire loan portfolio was 3.2 years (December 31, 2016: 3.7 years). The maturity profile was well staggered and spread over a period of 7 years, with around 72% of loans repayable after 2 years.

	At December 31, 2017		At December 31, 2016	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	**3,017**	10.8%	568	1.8%
After 1 but within 2 years	**4,845**	17.3%	4,844	15.6%
After 2 but within 5 years	**17,055**	60.8%	17,154	55.1%
Over 5 years	**3,122**	11.1%	8,553	27.5%
Total borrowings	**28,039**	100%	31,119	100%

Financial Review

- *Gearing Ratios & Interest Cover*

As at December 31, 2017, the Group had a net debt balance of HK$5,816 million (December 31, 2016: HK$6,595 million). Net debt to equity ratio was 3.9% (December 31, 2016: 4.8%) while the debt to equity ratio was 18.7% (December 31, 2016: 22.5%).

For the financial year ended December 31, 2017, the amount of total gross interest expense was HK$1,350 million (2016: HK$1,425 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 the financial year of 2017 increased HK$92 million to HK$1,294 million year-on-year because of a smaller amount of interest capitalization.

For the year ended December 31, 2017, interest income was HK$567 million (2016: HK$809 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, i.e. the excess of finance costs over interest income, for the financial year of 2017 increased to HK$727 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 for 2017 increased to 4.8% (2016: 4.0%).

Interest cover, a key indicator for debt servicing capability, for 2017 was 10 times (2016: 14 times).

- *Foreign Exchange Management*

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

(a) RMB Exposure

The RMB exposure of the Group 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, net assets on the Mainland amounted to RMB64 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$5,088 million, as the RMB appreciated by about 7% against the 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$5,505 million for 2017 (2016: total re-translation loss of HK$5,972 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 the Group were not charged to any third parties as at December 31, 2017.

- *Contingent Liabilities*

The Group 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.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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$1,509 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.

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.

Sustainable Development

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
- The Nomination and Remuneration Committee comprising INEDs only
- Audit Committee members meeting external auditor without the presence of management four times in 2017

Corporate Governance Report

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

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 eleven 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;
- three NEDs, namely, Mr. Gerald L. Chan, Mr. George K.K. Chang and Mr. Roy Y.C. Chen; and
- four INEDs, namely, Mr. Simon S.O. Ip, Prof. L.C. Tsui, Mr. Martin C.K. Liao and Prof. P.W. Liu.

[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.*

Our NEDs and 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.

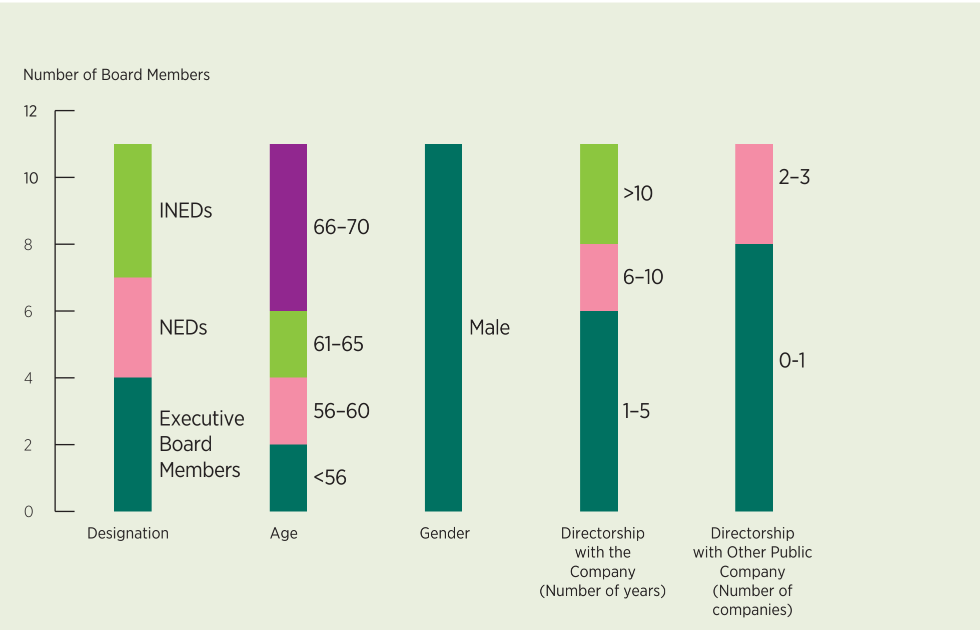
Mr. Ronnie C. Chan is the brother of Mr. Gerald L. Chan, a cousin of Mr. Roy Y.C. Chen and the father of Mr. Adriel W. Chan. Mr. George K.K. Chang is an employee of Morningside Group, which was co-founded by Mr. Ronnie C. Chan and Mr. Gerald L. Chan and is currently chaired by Mr. Gerald L. Chan.

Board Diversity

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

The 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.

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 120 to 125 of this annual report, are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board is responsible for, among other things:

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

NEDs and 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 100%. Details of Board Members' attendance records in 2017 are set out below:

	Meetings Attended/Held			
Board Members	**Board**	**Audit Committee**	**Nomination and Remuneration Committee**	**2017 AGM**
Independent Non-Executive Directors				
Simon S.O. Ip	6/6	4/4	1/1	1/1
L.C. Tsui	6/6	3/4	N/A	0/1
Martin C.K. Liao	6/6	N/A	1/1	1/1
P.W. Liu	6/6	4/4	1/1	1/1
Non-Executive Directors				
Gerald L. Chan	6/6	N/A	N/A	0/1
George K.K. Chang	6/6	3/4	N/A	0/1
Roy Y.C. Chen	6/6	N/A	N/A	0/1
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 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 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 or any of his 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 executive board members of HLPL, had abstained from voting to approve the connected transaction of HLPL 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 NEDs and 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 NEDs and INEDs in particular and ensures constructive relations between Executive Board Members, NEDs 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 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 NEDs and 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
Gerald L. Chan	A, B, C
Simon S.O. Ip	A, B, C
L.C. Tsui	A, B, C
Martin C.K. Liao	A, B, C
P.W. Liu	A, B, C
George K.K. Chang	A, B, C
Roy Y.C. Chen	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 three INEDs and one NED, namely, Mr. Simon S.O. Ip (Chairman of the Committee), Prof. L.C. Tsui, Prof. P.W. Liu and Mr. George K.K. Chang. 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, Prof. P.W. Liu (Chairman of the Committee), Mr. Simon S.O. Ip and Mr. Martin C.K. Liao. Regular reviews of significant changes to the salary structure of the Group and the terms and conditions affecting Executive 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 NEDs and 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 HLPL as at December 31, 2017 are as follows:

	The Company	Hang Lung Properties Limited	
Board Members	**Number of Shares**	**Number of Shares**	**Number of Shares under Option**
Ronnie C. Chan	11,790,000	16,330,000	21,000,000
Philip N.L. Chen	–	–	24,000,000
Gerald L. Chan	–	–	–
Simon S.O. Ip	–	–	–
L.C. Tsui	–	–	–
Martin C.K. Liao	–	–	–
P.W. Liu	–	100,000	–
George K.K. Chang	–	–	–
Roy Y.C. Chen	–	–	–
H.C. Ho	–	–	12,300,000
Adriel W. Chan (Note)	498,428,580	2,532,812,340	2,200,000

Note

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

(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.

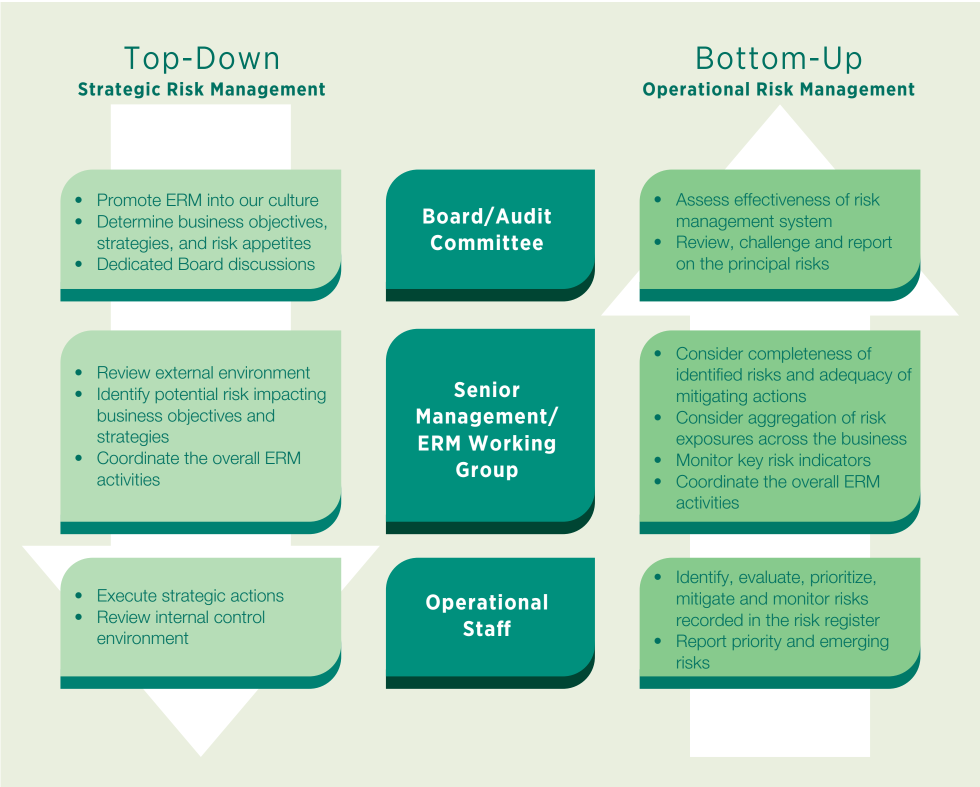
2. *Risk Management and Internal Controls*

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 support units of the Company in order to provide reasonable assurance that adequate controls and governance are in operation. In line with the Company's zero tolerance of fraud and bribery, the Internal Auditor 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	**12**	12
Non-audit services	**5**	4

(V) Communication with Stakeholders

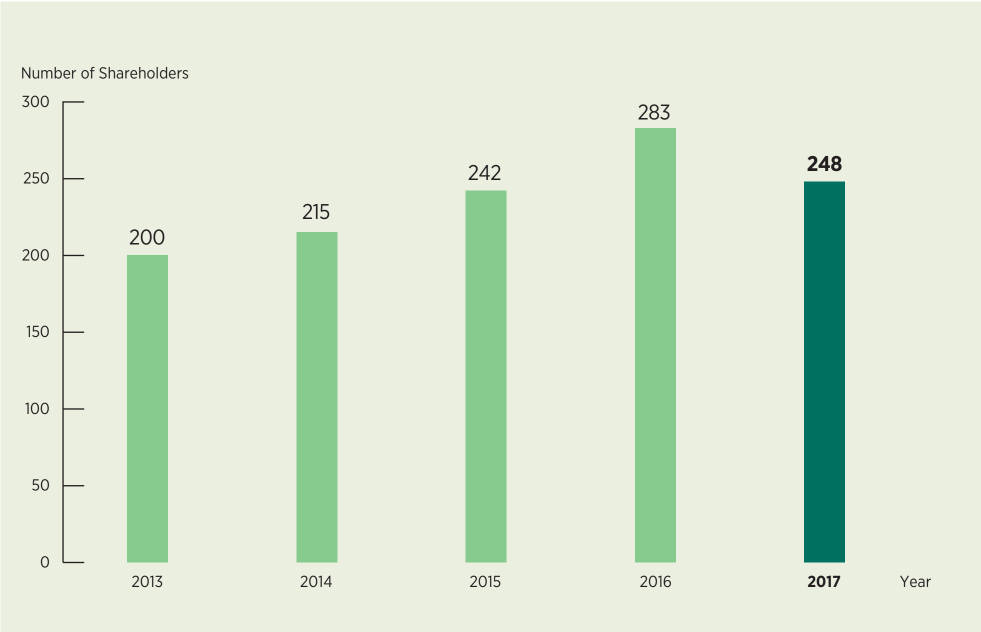
1. *Shareholders*

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 248 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	1,946	97.89	978,245,984	71.85
Mainland China	7	0.35	138,375	0.01
Macau	3	0.15	112,700	0.01
Taiwan	2	0.10	2,874	0.00
Australia and New Zealand	4	0.20	17,800	0.00
Canada and United States of America	16	0.81	127,173	0.01
South East Asia	1	0.05	33,000	0.00
United Kingdom	2	0.10	508	0.00
Others	7	0.35	382,939,828	28.12
TOTAL	**1,988**	**100.00**	**1,361,618,242**	**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	472	23.74	222,119	0.02
1,001–5,000 shares	677	34.06	2,049,396	0.15
5,001–10,000 shares	311	15.64	2,556,725	0.19
10,001–100,000 shares	485	24.40	13,259,397	0.97
Over 100,000 shares	43	2.16	1,343,530,605	98.67
TOTAL	**1,988**	**100.00**	**1,361,618,242**	**100.00**

* incorporating, in their respective shareholdings range, 255 participants of Central Clearing and Settlement System holding a total of 811,279,060 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 Group in 1972, becoming Chairman in 1991. He also serves as Chairman of Hang Lung Properties Limited, the Group's major publicly listed subsidiary. Mr. Chan is 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. He is a Fellow of the American Academy of Arts and Sciences. Mr. Chan is the brother of Mr. Gerald Chan, a Non-Executive Director of the Company and the father of Mr. Adriel Chan, an Executive Director of the Company.

Mr. Philip Nan Lok Chen
Chief Executive Officer

Aged 62, Mr. Chen joined the Company and its major listed subsidiary, Hang Lung Properties 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. Gerald Lokchung Chan
Non-Executive Director

Aged 66, Mr. Chan has been a Director of the Company since 1986. As co-founder of Morningside, Mr. Chan has been active in venture capital and private equity investments since 1987. He also serves on the advisory boards of numerous universities including the University of California, Los Angeles, Harvard University, Fudan University and also the Chair of Overseers Committee of Morningside College, The Chinese University of Hong Kong. Mr. Chan received his undergraduate training in engineering at the University of California, Los Angeles, and his Doctor of Science degree from Harvard University. He is a Non-Executive Director of Aduro Biotech, Inc. and the Chairman of Apellis Pharmaceuticals, Inc. Mr. Chan is the brother of Mr. Ronnie Chan, Chairman of the Group.

Mr. Simon Sik On Ip GBS, CBE, JP
Independent Non-Executive Director

Aged 69, Mr. Ip joined the Board in 1998. He is a solicitor and Notary Public. Mr. Ip has a distinguished record of public service. A former Legislative Councillor, past President of the Law Society of Hong Kong, and a past member of the Exchange Fund Advisory Committee and The Advisory Committee on Post-service Employment of Civil Servants, he is the Founding Chairman of the Hong Kong Institute of Education (now known as The Education University of Hong Kong), the Chairman of the Hong Kong Jockey Club, and he also holds honorary positions in two local universities and Tsinghua University. Mr. Ip is an Independent Non-Executive Director of 長飛光纖光纜股份有限公司 (Yangtze Optical Fibre and Cable Joint Stock Limited Company). He was awarded the Gold Bauhinia Star in July 2017.

Profile of the Directors

Prof. Lap-Chee Tsui OC, GBM, GBS, JP
Independent Non-Executive Director

Aged 67, Prof. Tsui joined the Board as an Independent Non-Executive Director in November 2014. Prof. Tsui was the fourteenth Vice-Chancellor of the University of Hong Kong. He was a member of the Research Institute at The Hospital for Sick Children in Toronto, Canada since 1981, rising to Geneticist-in-Chief of the Hospital in 1996 and Head of the Genetics and Genomic Biology Program in 1998. Prof. Tsui also held academic appointments at the University of Toronto since 1983, was awarded the title of University Professor in 1994 and has held an Emeritus status since 2006. He was also the President of the Human Genome Organization from 2000 to 2002. Prof. Tsui has received numerous awards for his work, including the Royal Society of Canada Centennial Award in 1989, Gairdner International Award in 1990, Cresson Medal of Franklin Institute in 1992, XII Sanremo International Award for Genetic Research in 1993, the Distinguished Scientist Award from the Medical Research Council, Canada in 2000, Killam Prize of Canada Council in 2002 and the European Cystic Fibrosis Society Award in 2009. He was elected as Fellow of the Royal Society of Canada in 1990, Fellow of the Royal Society of London in 1991, Member of Academia Sinica in 1992, Foreign Associate of the National Academy of Sciences of the US in 2004, Foreign Member of the Chinese Academy of Sciences in 2009, and Founding President of The Academy of Sciences of Hong Kong in 2015. Prof. Tsui obtained a bachelor's degree and master's degree in biology from The Chinese University of Hong Kong in 1972 and 1974 respectively. He also obtained a doctorate degree in biological sciences from the University of Pittsburgh in 1979. Prof. Tsui is an Independent Non-Executive Director of China NT Pharma Group Company Limited and PuraPharm Corporation Limited. He was awarded the Grand Bauhinia Medal in July 2016.

Mr. Martin Cheung Kong Liao SBS, JP
Independent Non-Executive Director

Aged 60, Mr. Liao joined the Board as an Independent Non-Executive Director in November 2014. Mr. Liao is elected Deputy (representing Hong Kong Special Administrative Region ("HKSAR")) to the 12th and 13th National People's Congress of the People's Republic of China. He has been appointed as a Non-Official Member of the Executive Council of the HKSAR since November 2016. Mr. Liao also serves as a Member of the Legislative Council of the HKSAR and Chairman of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Review Tribunal. He graduated with a Bachelor of Economic Science (Hons) degree and a Master of Laws degree from University College London. Mr. Liao was Called to the Bar in England and Wales in 1984 and was Called to the Bar in Hong Kong in 1985 and is a practising barrister in Hong Kong. He is also an advocate and solicitor admitted in Singapore since 1992. Mr. Liao was awarded the Silver Bauhinia Star in 2014, and appointed Justice of the Peace in 2004.

Prof. Pak Wai Liu SBS, JP

Independent Non-Executive Director

Aged 70, Prof. Liu joined the Board as an Independent Non-Executive Director in March 2015. He is Research Professor and was formerly Pro-Vice-Chancellor of The Chinese University of Hong Kong. He was formerly Director of the Institute of Global Economics and Finance and was appointed Distinguished Fulbright Scholar in 2000-01. Prof. Liu serves on many government advisory bodies. He is the Chairman of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials. Prof. Liu was a past member of the Working Group on Long-Term Fiscal Planning of the HKSAR, the Commission on Strategic Development, the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR, the Provisional Minimum Wage Commission, the Independent Commission on Remuneration for the Members of the District Councils of the HKSAR and the Aviation Development Advisory Committee. He is also a Director of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority and the Shenzhen Finance Institute. He was a Non-Executive Director of the Securities and Futures Commission and Chairman of its Remuneration Committee. Prof. Liu received his AB degree from Princeton University and Ph.D degree from Stanford University in the US. He is an Independent Non-Executive Director of Transport International Holdings Limited and China Zheshang Bank Co., Ltd., and was an Independent Non-Executive Director of Hang Lung Properties Limited, listed subsidiary of the Company. Prof. Liu was awarded the Silver Bauhinia Star (SBS) in 1999, and appointed Justice of Peace (JP) in 2006.

Mr. George Ka Ki Chang

Non-Executive Director

Aged 65, Mr. Chang joined the Board as a Non-Executive Director in March 2015. He is managing director of Morningside Group chaired and co-founded by Mr. Gerald Chan and co-founded by Mr. Ronnie Chan. Mr. Chang started his professional career in a major international accounting firm and has over eight years of experience in public accounting in Hong Kong and Toronto. Prior to joining Morningside Group in 1991, he held senior financial positions in several international manufacturing and trading companies. Mr. Chang received his M.B.A. degree from the University of Wisconsin at Madison and is a member of the American Institute of Certified Public Accountants, Canadian Institute of Chartered Accountants and Hong Kong Institute of Certified Public Accountants. He sits on the board of several private companies in Asia and North America. Mr. Chang formerly served as a board member of the publicly-traded companies and accumulated experience in high technology companies. He is an independent non-executive director of Crystal International Group Limited.

Profile of the Directors

Mr. Roy Yang Chung Chen

Non-Executive Director

Aged 54, Mr. Chen joined the Board as a Non-Executive Director in September 2015. Mr. Chen is the Chairman and Chief Executive Officer of Grace Financial Limited specializing in wealth management. He is also a Director of Sterling Enterprises Limited responsible for managing various investments in global markets. Starting his career as merchant banker in the US and UK until joining Sterling Enterprises Limited since 1993, Mr. Chen has accumulated extensive experience in international banking, finance and investment. Mr. Chen has been actively involved in promoting and improving corporate governance with a special interest in family business situations since 2000 and was appointed the founding director of the Family Business Network Pacific Asia Ltd. (FBNPA) from 2008 to 2012. He is also the Chairman of Seeds Foundation and serves on the grants committee of ZeShan Foundation and Seeds Foundation, a member of the Public Shareholders Group of the Securities and Futures Commission of Hong Kong and a member of the Caring Company Scheme Steering Committee and WiseGiving Steering Committee of The Hong Kong Council of Social Service. He previously served as a member of the Listing Committee of Hong Kong Stock Exchange and a member of Takeovers and Mergers Panel of the Securities and Futures Commission of Hong Kong. Mr. Chen received his Bachelor of Arts degree in Economics from Claremont McKenna College, and an MBA from Columbia University in the US.

Mr. Hau Cheong Ho

Chief Financial Officer

Aged 58, Mr. Ho joined the Group in 2008. He was appointed to the Board of the Company and of its publicly listed subsidiary, Hang Lung Properties 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 major listed subsidiary, Hang Lung Properties 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

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.

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

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

Principal Subsidiaries and Joint Ventures

A list of principal subsidiaries and joint ventures, together with their places of operations and incorporation and particulars of their issued share capital/registered capital is set out in Notes 37 and 38 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 143 to 213.

Dividends

The Board now recommends a final dividend of HK61 cents per share which, together with the interim dividend of HK19 cents per share paid on September 28, 2017, makes a total of HK80 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 26 to 61 and pages 64 to 75, 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 90 to 93. 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 26 to 61 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 64 to 75, 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 78 to 87 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$16,083 million (2016: HK$14,382 million).

Donations

Donations made by the Group during the year amounted to HK$16 million (2016: HK$20 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 59 to 61.

Share Capital

During the year, the Company did not issue any shares (2016: 6,700,000 shares, fully paid, were issued for a total consideration of HK$137,484,000 as a result of the exercise of share options under the Company's share option scheme).

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

Share Capital of the Company's Listed Subsidiary

During the year, the Company's listed subsidiary, HLPL did not issue any shares (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 HLPL's share option scheme).

Equity-Linked Agreements

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.

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 120 to 125. 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, Prof. P.W. Liu, Mr. George K.K. Chang, Mr. Roy Y.C. Chen and Mr. Philip N.L. Chen 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.hanglunggroup.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 or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transaction, Arrangement or Contract

Save as disclosed, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director of the Board or his 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 Properties Limited (Long Position)		
Name	**Capacity**	**Number of Shares**	**% of Number of Issued Shares**	**Number of Shares**	**% of Number of Issued Shares**	**Number of Shares under Option** (Note 2)
Ronnie C. Chan	Personal	11,790,000	0.87	16,330,000	0.36	21,000,000
Philip N.L. Chen	Personal	–	–	–	–	24,000,000
Gerald L. Chan	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–
L.C. Tsui	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	100,000	–	–
George K.K. Chang	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	12,300,000
Adriel W. Chan	Personal & Other (Note 1)	498,428,580	36.61	2,532,812,340	56.32	2,200,000

Notes

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

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

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

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

2. Movements of Options under the Share Option Schemes of Hang Lung Properties Limited (Continued)

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: 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 or any of its 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	498,428,580	36.61
Cole Enterprises Holdings (PTC) Limited	1	498,428,580	36.61
Merssion Limited	1	498,428,580	36.61
Adriel W. Chan	1	498,428,580	36.61
Kingswick Investment Limited	2	97,965,000	7.19
Aggregate of Standard Life Aberdeen plc affiliated investment management	3	217,706,067	15.98
Dodge & Cox	3	134,650,000	9.89

Notes

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

2. This company was a wholly-owned subsidiary of Merssion Limited. Its interests were included in 498,428,580 shares held by Merssion Limited.

3. These shares were held in the capacity of investment managers.

Save as disclosed above, as at December 31, 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

Details of the significant related party transactions undertaken in the usual course of business are set out in Note 30 to the Financial Statements. None of these related party transactions constitutes a discloseable connected transaction under the Listing Rules.

Management Contracts

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

Purchase, Sale or Redemption of Listed Securities

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

Corporate Governance

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 94 to 119.

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 Group Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hang Lung Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 143 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$163,998 million, representing 84% 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$3,085 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	2017 RMB Million	2016 RMB Million
				For information purpose only	
Revenue	3(a)	**11,774**	13,648	**10,233**	11,743
Direct costs and operating expenses		**(3,462)**	(4,310)	**(3,006)**	(3,709)
Gross profit		**8,312**	9,338	**7,227**	8,034
Other net income	4	**550**	228	**472**	196
Administrative expenses		**(656)**	(671)	**(569)**	(575)
Operating profit before changes in fair value of properties		**8,206**	8,895	**7,130**	7,655
Net increase/(decrease) in fair value of properties	11	**3,085**	(254)	**2,606**	(226)
Operating profit after changes in fair value of properties		**11,291**	8,641	**9,736**	7,429
Interest income		**567**	809	**494**	692
Finance costs		**(1,294)**	(1,202)	**(1,123)**	(1,031)
Net interest expense	5	**(727)**	(393)	**(629)**	(339)
Share of profits of joint ventures	12	**221**	129	**190**	110
Profit before taxation	3(a) & 6	**10,785**	8,377	**9,297**	7,200
Taxation	8(a)	**(1,447)**	(1,472)	**(1,259)**	(1,259)
Profit for the year		**9,338**	6,905	**8,038**	5,941
Attributable to:					
Shareholders	23	**5,314**	3,713	**4,571**	3,196
Non-controlling interests	24	**4,024**	3,192	**3,467**	2,745
		9,338	6,905	**8,038**	5,941
Earnings per share	10(a)				
Basic		**HK$3.90**	HK$2.73	**RMB3.36**	RMB2.36
Diluted		**HK$3.90**	HK$2.73	**RMB3.36**	RMB2.36

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	2016 RMB Million
Profit for the year		**9,338**	6,905	**8,038**	5,941
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		**5,505**	(5,972)	**(3,868)**	2,348
Movement in hedging reserve:					
Effective portion of changes in fair value		**(86)**	–	**(77)**	–
Net amount transferred to profit or loss		**(48)**	–	**(42)**	–
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**1**	–	**1**	–
		5,372	(5,972)	**(3,986)**	2,348
Total comprehensive income for the year		**14,710**	933	**4,052**	8,289
Total comprehensive income attributable to:					
Shareholders		**8,198**	543	**2,311**	4,553
Non-controlling interests		**6,512**	390	**1,741**	3,736
		14,710	933	**4,052**	8,289

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		**142,406**	133,005	**119,030**	119,212
Investment properties under development		**21,592**	17,282	**18,049**	15,459
Other property, plant and equipment		**218**	324	**182**	290
	11	**164,216**	150,611	**137,261**	134,961
Interest in joint ventures	12	**3,650**	3,539	**3,051**	3,180
Other assets	13	**1,445**	1,341	**1,208**	1,205
Deposits with banks	14	**3,705**	–	**3,097**	–
Deferred tax assets	21(b)	**2**	22	**2**	20
		173,018	155,513	**144,619**	139,366
Current assets					
Cash and deposits with banks	14	**18,518**	24,524	**15,477**	22,010
Trade and other receivables	15	**2,078**	3,958	**1,737**	3,552
Properties for sale	16	**1,634**	2,374	**1,366**	2,133
Assets held for sale	17	**540**	–	**451**	–
		22,770	30,856	**19,031**	27,695
Current liabilities					
Bank loans and other borrowings	18	**3,017**	568	**2,522**	508
Trade and other payables	19	**7,169**	6,761	**5,992**	6,058
Finance lease obligations	20	**19**	–	**16**	–
Taxation payable	21(a)	**511**	982	**427**	881
Liabilities directly associated with the assets held for sale	17	**2**	–	**2**	–
		10,718	8,311	**8,959**	7,447
Net current assets		**12,052**	22,545	**10,072**	20,248
Total assets less current liabilities		**185,070**	178,058	**154,691**	159,614
Non-current liabilities					
Bank loans and other borrowings	18	**25,022**	30,551	**20,914**	27,416
Finance lease obligations	20	**319**	–	**267**	–
Deferred tax liabilities	21(b)	**10,173**	9,494	**8,504**	8,494
		35,514	40,045	**29,685**	35,910
NET ASSETS		**149,556**	138,013	**125,006**	123,704

Consolidated Statement of Financial Position

At December 31, 2017

				For information purpose only	
	Note	**2017** **HK$ Million**	2016 HK$ Million	**2017** **RMB Million**	2016 RMB Million
Capital and reserves					
Share capital	22	**4,065**	4,065	**3,164**	3,164
Reserves	23	**79,072**	71,593	**66,326**	64,651
Shareholders' equity		**83,137**	75,658	**69,490**	67,815
Non-controlling interests	24	**66,419**	62,355	**55,516**	55,889
TOTAL EQUITY		**149,556**	138,013	**125,006**	123,704

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

	Shareholders' equity					
in HK$ Million	Share capital (Note 22)	Other reserves (Note 23)	Retained profits (Note 23)	Total	Non-controlling interests (Note 24)	Total equity
At January 1, 2016	3,893	4,565	67,012	75,470	64,832	140,302
Profit for the year	–	–	3,713	3,713	3,192	6,905
Exchange difference arising from translation of foreign subsidiaries	–	(3,170)	–	(3,170)	(2,802)	(5,972)
Total comprehensive income for the year	–	(3,170)	3,713	543	390	933
Final dividend in respect of previous year	–	–	(827)	(827)	–	(827)
Interim dividend in respect of current year	–	–	(258)	(258)	–	(258)
Issue of shares	172	(35)	–	137	–	137
Employee share-based payments	–	44	18	62	41	103
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	531	–	531	(1,068)	(537)
Dividends paid to non-controlling interests	–	–	–	–	(1,840)	(1,840)
At December 31, 2016, as previously reported	4,065	1,935	69,658	75,658	62,355	138,013
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	–	67	–	67	38	105
At January 1, 2017, restated	**4,065**	**2,002**	**69,658**	**75,725**	**62,393**	**138,118**
Profit for the year	**–**	**–**	**5,314**	**5,314**	**4,024**	**9,338**
Exchange difference arising from translation of foreign subsidiaries	**–**	**2,958**	**–**	**2,958**	**2,547**	**5,505**
Cash flow hedges: net movement in hedging reserve	**–**	**(75)**	**–**	**(75)**	**(59)**	**(134)**
Net change in fair value of equity investments	**–**	**1**	**–**	**1**	**–**	**1**
Total comprehensive income for the year	**–**	**2,884**	**5,314**	**8,198**	**6,512**	**14,710**
Final dividend in respect of previous year	**–**	**–**	**(831)**	**(831)**	**–**	**(831)**
Interim dividend in respect of current year	**–**	**–**	**(258)**	**(258)**	**–**	**(258)**
Employee share-based payments	**–**	**(37)**	**85**	**48**	**30**	**78**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**255**	**–**	**255**	**(709)**	**(454)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,807)**	**(1,807)**
At December 31, 2017	**4,065**	**5,104**	**73,968**	**83,137**	**66,419**	**149,556**

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	3,015	4,987	55,557	63,559	54,585	118,144
Profit for the year	–	–	3,196	3,196	2,745	5,941
Exchange difference arising from translation to presentation currency	–	1,357	–	1,357	991	2,348
Total comprehensive income for the year	–	1,357	3,196	4,553	3,736	8,289
Final dividend in respect of previous year	–	–	(697)	(697)	–	(697)
Interim dividend in respect of current year	–	–	(223)	(223)	–	(223)
Issue of shares	149	(30)	–	119	–	119
Employee share-based payments	–	38	16	54	35	89
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	450	–	450	(905)	(455)
Dividends paid to non-controlling interests	–	–	–	–	(1,562)	(1,562)
At December 31, 2016, as previously reported	3,164	6,802	57,849	67,815	55,889	123,704
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	**–**	**60**	**–**	**60**	**34**	**94**
At January 1, 2017, restated	**3,164**	**6,862**	**57,849**	**67,875**	**55,923**	**123,798**
Profit for the year	**–**	**–**	**4,571**	**4,571**	**3,467**	**8,038**
Exchange difference arising from translation to presentation currency	**–**	**(2,195)**	**–**	**(2,195)**	**(1,673)**	**(3,868)**
Cash flow hedges: net movement in hedging reserve	**–**	**(66)**	**–**	**(66)**	**(53)**	**(119)**
Net change in fair value of equity investments	**–**	**1**	**–**	**1**	**–**	**1**
Total comprehensive income for the year	**–**	**(2,260)**	**4,571**	**2,311**	**1,741**	**4,052**
Final dividend in respect of previous year	**–**	**–**	**(734)**	**(734)**	**–**	**(734)**
Interim dividend in respect of current year	**–**	**–**	**(218)**	**(218)**	**–**	**(218)**
Employee share-based payments	**–**	**(32)**	**72**	**40**	**28**	**68**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**216**	**–**	**216**	**(599)**	**(383)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,577)**	**(1,577)**
At December 31, 2017	**3,164**	**4,786**	**61,540**	**69,490**	**55,516**	**125,006**

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	**10,694**	8,092	**9,245**	6,978
Tax paid					
Hong Kong Profits Tax paid		**(1,089)**	(427)	**(943)**	(366)
Mainland China Income Tax paid		**(768)**	(637)	**(670)**	(570)
Net cash generated from operating activities		**8,837**	7,028	**7,632**	6,042
Investing activities					
Payment for property, plant and equipment		**(4,642)**	(2,682)	**(3,979)**	(2,355)
— purchase		**(4,251)**	(2,682)	**(3,633)**	(2,355)
— acquisition of a subsidiary	26	**(391)**	–	**(346)**	–
Net sale proceeds from disposal of property, plant and equipment		**560**	12	**485**	10
Interest received		**533**	855	**460**	731
Dividends received from joint ventures		**51**	55	**44**	47
Repayment from/(Advance to) joint ventures		**60**	(11)	**52**	(9)
Repayment of advances to unlisted investee companies		**2**	2	**2**	2
Dividends received from unlisted investments		**–**	20	**–**	17
(Increase)/Decrease in bank deposits with maturity greater than 3 months		**(10,677)**	3,427	**(9,249)**	2,939
Net cash (used in)/generated from investing activities		**(14,113)**	1,678	**(12,185)**	1,382
Financing activities					
Proceeds from new bank loans and other borrowings	27	**1,744**	5,143	**1,511**	4,404
Repayment of bank loans	27	**(5,829)**	(10,691)	**(5,049)**	(9,536)
Proceeds from exercise of share options		**–**	137	**–**	119
Interest and other borrowing costs paid		**(1,227)**	(1,399)	**(1,063)**	(1,205)
Dividends paid		**(1,089)**	(1,085)	**(952)**	(920)
Dividends paid to non-controlling interests		**(1,807)**	(1,840)	**(1,577)**	(1,562)
Decrease in non-controlling interests in subsidiaries		**(454)**	(537)	**(383)**	(455)
Net cash used in financing activities		**(8,662)**	(10,272)	**(7,513)**	(9,155)
Decrease in cash and cash equivalents		**(13,938)**	(1,566)	**(12,066)**	(1,731)
Effect of foreign exchange rate changes		**850**	(1,875)	**(330)**	79
Cash and cash equivalents at January 1		**23,578**	27,019	**21,164**	22,816
Cash and cash equivalents at December 31	14	**10,490**	23,578	**8,768**	21,164

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$130,720 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$105 million as of January 1, 2017. Consequently, the opening balances of the Group's other reserves and non-controlling interests as of January 1, 2017 were 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	**4,372**	4,427	**2,734**	2,814
— Hong Kong	**3,982**	3,899	**3,340**	3,315
	8,354	8,326	**6,074**	6,129
Property sales				
— Hong Kong	**3,420**	5,322	**2,238**	3,209
Segment total	**11,774**	13,648	**8,312**	9,338
Other net income			**550**	228
Administrative expenses			**(656)**	(671)
Operating profit before change in fair value of properties			**8,206**	8,895
Net increase/(decrease) in fair value of properties			**3,085**	(254)
— property leasing in Hong Kong			**3,352**	204
— property leasing in mainland China			**(267)**	(798)
— upon transfer from completed properties for sale to investment properties			**–**	340
Net interest expense			**(727)**	(393)
— interest income			**567**	809
— finance costs			**(1,294)**	(1,202)
Share of profits of joint ventures			**221**	129
Profit before taxation			**10,785**	8,377

3 Revenue and Segment Information (Continued)

(b) Total assets by segments

	Total assets	
	2017 **HK$ Million**	2016 HK$ Million
Segment		
Property leasing		
— Mainland China	**101,283**	90,973
— Hong Kong	**64,479**	60,999
	165,762	151,972
Property sales		
— Hong Kong	**2,166**	4,971
Segment total	**167,928**	156,943
Interest in joint ventures	**3,650**	3,539
Other assets	**1,445**	1,341
Deferred tax assets	**2**	22
Cash and deposits with banks	**22,223**	24,524
Assets held for sale	**540**	–
Total assets	**195,788**	186,369

4 Other Net Income

	2017 **HK$ Million**	2016 HK$ Million
Gain on disposal of investment properties	**464**	8
Dividend income from unlisted investments	**–**	20
Fair value gain on derivative financial instruments (Note)	**–**	203
Ineffectiveness on cash flow hedges (Note)	**(5)**	–
Net exchange gain/(loss)	**89**	(3)
Others	**2**	–
	550	228

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	**567**	809
Interest expense on bank loans and other borrowings	**1,225**	1,321
Finance charges on finance leases obligations	**8**	–
Other borrowing costs	**117**	104
Total borrowing costs	**1,350**	1,425
Less: Borrowing costs capitalized (Note)	**(56)**	(223)
Finance costs	**1,294**	1,202
Net interest expense	**(727)**	(393)

Note: The borrowing costs have been capitalized at an average rate of 4.8% (2016: 4.0%) 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)	**1,509**	1,438
Depreciation	**44**	57
Auditors' remuneration		
— audit services	**13**	12
— non-audit services	**5**	4
and after crediting:		
Gross rental income from investment properties less direct outgoings of HK$2,280 million (2016: HK$2,197 million), including contingent rentals of HK$381 million (2016: HK$318 million)	**6,074**	6,129

7 Emoluments of Directors and Senior Management

The Nomination and Remuneration Committee consists of three Independent Non-Executive Directors. The Committee makes recommendation to the Board on the Non-Executive Directors' and Independent Non-Executive Directors' remuneration packages and determines the remuneration package of individual Executive Directors. The emoluments of 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	1.9	26.1	9.0	2.6	39.6	38.7
Philip N.L. Chen	1.4	24.5	9.0	1.8	36.7	36.0
H.C. Ho	1.4	5.0	3.6	0.4	10.4	10.2
Adriel W. Chan (Appointed on November 19, 2016)	1.4	4.6	3.0	0.3	9.3	0.8
Non-Executive Directors						
Gerald L. Chan	0.7	–	–	–	0.7	0.7
George K.K. Chang	0.9	–	–	–	0.9	0.8
Roy Y.C. Chen	0.7	–	–	–	0.7	0.7
Independent Non-Executive Directors						
Simon S.O. Ip	1.1	–	–	–	1.1	1.0
L.C. Tsui	0.9	–	–	–	0.9	0.8
Martin C.K. Liao	0.8	–	–	–	0.8	0.8
P.W. Liu	1.0	–	–	–	1.0	1.2
2017	12.2	60.2	24.6	5.1	102.1	91.7
2016	10.9	54.4	21.7	4.7	91.7	

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 Hang Lung Properties Limited (HLPL). 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	**723**	869
Over-provision in prior years	**–**	(10)
	723	859
Mainland China Income Tax	**648**	664
	1,371	1,523
Deferred tax		
Changes in fair value of properties	**(4)**	(145)
Other origination and reversal of temporary differences	**80**	94
Total (Note 21(b))	**76**	(51)
Total income tax expense	**1,447**	1,472

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$30 million (2016: HK$34 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	**10,785**	8,377
Notional tax on profit before taxation at applicable rates	**1,922**	1,589
Tax effect of non-taxable income	**(677)**	(179)
Tax effect of non-deductible expenses	**55**	91
Tax effect of tax losses utilized and other deductible temporary differences	**(100)**	(180)
Tax effect of unrecognized tax losses	**247**	161
Over-provision in prior years	**–**	(10)
Actual tax expense	**1,447**	1,472

(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 HK19 cents (2016: HK19 cents) per share	**258**	258
Final dividend of HK61 cents (2016: HK61 cents) per share proposed after the end of the reporting period	**831**	831
	1,089	1,089

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$831 million (calculated based on HK61 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$827 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)	**5,314**	3,713

	Number of shares	
	2017 Million	2016 Million
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	**1,362**	1,358

Note: Diluted earnings per share were the same as the basic earnings per share for the years as there were no dilutive potential ordinary shares in existence during both years.

(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	**5,314**	3,713
Effect of changes in fair value of properties	**(3,085)**	254
Effect of corresponding deferred tax	**(4)**	(145)
Effect of changes in fair value of investment properties of joint ventures	**(92)**	4
	(3,181)	113
Non-controlling interests	**1,181**	(54)
	(2,000)	59
Underlying net profit attributable to shareholders	**3,314**	3,772

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

	2017	2016
Basic	**HK$2.43**	HK$2.78
Diluted	**HK$2.43**	HK$2.78

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	137,338	16,709	784	154,831
Exchange adjustment	(4,920)	(1,060)	(18)	(5,998)
Additions	842	1,633	55	2,530
Disposals	(3)	–	(8)	(11)
Net decrease in fair value	(594)	–	–	(594)
Transfer from properties for sale (Note 16)	342	–	–	342
At December 31, 2016 and January 1, 2017	133,005	17,282	813	151,100
Exchange adjustment	**5,083**	**1,204**	**23**	**6,310**
Additions	**1,385**	**3,106**	**2**	**4,493**
Acquisition of a subsidiary (Note 26)	**391**	**–**	**–**	**391**
Disposals	**(4)**	**–**	**(90)**	**(94)**
Net increase in fair value	**3,085**	**–**	**–**	**3,085**
Transfer to assets held for sale (Note 17)	**(539)**	**–**	**–**	**(539)**
At December 31, 2017	**142,406**	**21,592**	**748**	**164,746**
Accumulated depreciation:				
At January 1, 2016	–	–	446	446
Exchange adjustment	–	–	(7)	(7)
Charge for the year	–	–	57	57
Written back on disposals	–	–	(7)	(7)
At December 31, 2016 and January 1, 2017	–	–	489	489
Exchange adjustment	**–**	**–**	**11**	**11**
Charge for the year	**–**	**–**	**44**	**44**
Written back on disposals	**–**	**–**	**(14)**	**(14)**
At December 31, 2017	**–**	**–**	**530**	**530**
Net book value:				
At December 31, 2017	**142,406**	**21,592**	**218**	**164,216**
At December 31, 2016	133,005	17,282	324	150,611

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	**142,406**	**21,592**	**–**	**163,998**
Cost	**–**	**–**	**748**	**748**
	142,406	**21,592**	**748**	**164,746**
December 31, 2016				
Valuation	133,005	17,282	–	150,287
Cost	–	–	813	813
	133,005	17,282	813	151,100

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	**–**	**142,406**	**–**
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	–	133,005	–
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)	**23,970**	22,155	**–**	–
Outside Hong Kong				
— long-term leases (over 50 years)	**1,241**	1,156	**923**	798
— medium-term leases (10 to 50 years)	**77,161**	71,366	**20,669**	16,484
	142,406	133,005	**21,592**	17,282

(c) The net book value of other property, plant and equipment of the Group included long-term leases of HK$10 million (2016: HK$9 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	**5,725**	5,585
After 1 year but within 5 years	**7,326**	7,007
After 5 years	**710**	602
	13,761	13,194

12 Interest in Joint Ventures

	2017 HK$ Million	2016 HK$ Million
Share of net assets	**2,935**	2,764
Amounts due from joint ventures	**722**	782
Amounts due to joint ventures	**(7)**	(7)
	3,650	3,539

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

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

Details of principal joint ventures are set out in note 38. 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	**3,808**	3,531
Current assets	**182**	296
Non-current liabilities	**(890)**	(920)
Current liabilities	**(165)**	(143)
Net assets	**2,935**	2,764

	2017 HK$ Million	2016 HK$ Million
Revenue	**237**	266
Profit and total comprehensive income for the year	**221**	129

13 Other Assets

	2017 HK$ Million	2016 HK$ Million
Investments in unlisted equity instruments at FVTOCI	**106**	–
Advances to unlisted investee companies	**157**	159
Intangible assets (Note)	**1,182**	1,182
	1,445	1,341

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

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 investments:

	2017 HK$ Million	2016 HK$ Million
Investment in Ever Light Limited	**85**	–
Others	**21**	–
	106	–

14 Cash and Deposits With Banks

	2017 HK$ Million	2016 HK$ Million
Cash at banks	**1,452**	1,648
Time deposits recoverable within 1 year	**17,066**	22,876
	18,518	24,524
Time deposits recoverable after 1 year	**3,705**	–
Cash and deposits with banks in the consolidated statement of financial position	**22,223**	24,524
Less: Bank deposits with maturity greater than 3 months	**(11,733)**	(946)
Cash and cash equivalents in the consolidated cash flow statement	**10,490**	23,578

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	**12,805**	2,950
Hong Kong Dollars equivalent of:		
Renminbi	**9,408**	21,563
United States Dollars	**10**	11
	22,223	24,524

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)	**28,039**	31,119
Less: Cash and deposits	**(22,223)**	(24,524)
Net Debt	**5,816**	6,595

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)	511	2,621
1 – 3 months past due	6	22
More than 3 months past due	3	13
	520	2,656

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)	73	712
	1,630	2,370
Completed properties for sale located outside Hong Kong		
— medium-term leases (10 to 50 years)	4	4
	1,634	2,374

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

(a) On November 22, 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 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. After the end of the reporting period, the completion of the transaction took place on January 22, 2018.

(b) On December 13, 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose of investment properties at Bayview Garden in Hong Kong. The completion of the transaction is scheduled to take place on March 15, 2018.

Accordingly, the following assets and liabilities are presented as a disposal group/assets held for sale.

	2017 **HK$ Million**
Investment properties	**539**
Properties for sale	**1**
Assets held for sale	**540**
Deposits received	**2**
Liabilities directly associated with the assets held for sale	**2**

The fair value of investment properties was determined by reference to the selling price on the sale and purchase agreements signed with independent third parties 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	**2,647**	568
After 1 year but within 2 years	**4,859**	4,484
After 2 years but within 5 years	**6,383**	12,374
Over 5 years	**1,485**	1,189
	15,374	18,615
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
	28,178	31,359
Less: unamortized front end fees	**(139)**	(240)
Total bank loans and other borrowings	**28,039**	31,119
Amount due within 1 year included under current liabilities	**(3,017)**	(568)
	25,022	30,551

(a) All bank loans are interest-bearing at rates ranging from 1.0% 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$15,009 million (2016: HK$13,052 million) committed undrawn banking facilities.

(b) A wholly-owned subsidiary of HLPL 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))	**4,669**	4,563
Deposits received (Note (b))	**2,500**	2,198
	7,169	6,761

(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$1,384 million (2016: HK$1,289 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	**2,063**	1,690
Due after 3 months	**1,977**	1,855
	4,040	3,545

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	259	610
Provision for mainland China Income Tax	252	372
	511	982

(b) Deferred taxation

	2017 HK$ Million	2016 HK$ Million
Deferred tax liabilities	10,173	9,494
Deferred tax assets	(2)	(22)
Net deferred tax liabilities	10,171	9,472

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	1,717	8,324	(2)	86	10,125
Exchange adjustment	(76)	(524)	–	(2)	(602)
Charged/(Credited) to profit or loss (Note 8(a))	113	(145)	–	(19)	(51)
At December 31, 2016 and January 1, 2017	1,754	7,655	(2)	65	9,472
Exchange adjustment	91	531	–	1	623
Charged/(Credited) to profit or loss (Note 8(a))	108	(4)	(40)	12	76
At December 31, 2017	**1,953**	**8,182**	**(42)**	**78**	**10,171**

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$6,470 million (2016: HK$5,510 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 **Million**	**Amount of share capital** **HK$ Million**	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	**1,362**	**4,065**	1,355	3,893
Shares issued under share option scheme	**–**	**–**	7	172
At December 31	**1,362**	**4,065**	1,362	4,065

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	General reserve HK$ Million	Other capital reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2016	1,529	–	–	433	275	2,328	4,565	67,012	71,577
Profit for the year	–	–	–	–	–	–	–	3,713	3,713
Exchange difference arising from translation of foreign subsidiaries	(3,170)	–	–	–	–	–	(3,170)	–	(3,170)
Total comprehensive income for the year	(3,170)	–	–	–	–	–	(3,170)	3,713	543
Final dividend in respect of previous year	–	–	–	–	–	–	–	(827)	(827)
Interim dividend in respect of current year	–	–	–	–	–	–	–	(258)	(258)
Issue of shares	–	–	–	(35)	–	–	(35)	–	(35)
Employee share-based payments	–	–	–	44	–	–	44	18	62
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	–	–	–	–	531	531	–	531
At December 31, 2016, as previously reported	(1,641)	–	–	442	275	2,859	1,935	69,658	71,593
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	-	-	67	-	-	-	67	-	67
At January 1, 2017, restated	(1,641)	-	67	442	275	2,859	2,002	69,658	71,660
Profit for the year	-	-	-	-	-	-	-	5,314	5,314
Exchange difference arising from translation of foreign subsidiaries	2,958	-	-	-	-	-	2,958	-	2,958
Cash flow hedges: net movement in hedging reserve	-	(75)	-	-	-	-	(75)	-	(75)
Net change in fair value of equity investments	-	-	1	-	-	-	1	-	1
Total comprehensive income for the year	2,958	(75)	1	-	-	-	2,884	5,314	8,198
Final dividend in respect of previous year	-	-	-	-	-	-	-	(831)	(831)
Interim dividend in respect of current year	-	-	-	-	-	-	-	(258)	(258)
Employee share-based payments	-	-	-	(37)	-	-	(37)	85	48
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	-	-	-	-	-	255	255	-	255
At December 31, 2017	**1,317**	**(75)**	**68**	**405**	**275**	**3,114**	**5,104**	**73,968**	**79,072**

23 Reserves (Continued)

(a) The Group (Continued)

The retained profits for the Group at December 31, 2017 included HK$623 million (2016: HK$551 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).

The general reserve was derived from retained profits and is distributable.

The other capital reserve represents any difference between the cost of the additional investment and the carrying amount of the net assets acquired at the date of exchange when acquiring an additional non-controlling interest in an existing subsidiary.

(b) The Company

	Other reserves				
	Employee share-based compensation reserve HK$ Million	General reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2016	35	862	897	11,618	12,515
Profit and total comprehensive income for the year	–	–	–	2,987	2,987
Final dividend in respect of previous year	–	–	–	(827)	(827)
Interim dividend in respect of current year	–	–	–	(258)	(258)
Employee share-based payments	(35)	–	(35)	–	(35)
At December 31, 2016 and January 1, 2017	–	862	862	13,520	14,382
Profit and total comprehensive income for the year	**–**	**–**	**–**	**2,790**	**2,790**
Final dividend in respect of previous year	**–**	**–**	**–**	**(831)**	**(831)**
Interim dividend in respect of current year	**–**	**–**	**–**	**(258)**	**(258)**
At December 31, 2017	**–**	**862**	**862**	**15,221**	**16,083**

The aggregate amount of the Company's reserves available for distribution to equity shareholders of the Company at December 31, 2017 was HK$16,083 million (2016: HK$14,382 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 3.9% (2016: 4.8%) and 18.7% (2016: 22.5%), 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	**10,785**	8,377
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	**(567)**	(809)
Dividend income from unlisted investments	**–**	(20)
Finance costs	**1,294**	1,202
Depreciation	**44**	57
Loss on disposal of other property, plant and equipment	**–**	1
Net (increase)/decrease in fair value of properties	**(3,085)**	254
Share of profits of joint ventures	**(221)**	(129)
Employee share-based payments	**78**	103
Decrease in properties for sale	**739**	1,531
Decrease/(Increase) in trade and other receivables	**1,987**	(2,810)
(Decrease)/Increase in creditors and accrued expenses	**(109)**	502
Increase in deposits received	**208**	44
Cash generated from operations	**10,694**	8,092

26 Acquisition of a Subsidiary

During the year, the Group acquired a subsidiary. The fair values of assets acquired and liabilities assumed were as follows:

	2017 HK$ Million
Investment properties	**391**
Trade and other receivables	**1**
Trade and other payables	**(1)**
Net assets acquired	**391**
Cash outflow on acquisition	**391**

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	**31,119**	**–**
Cash flows	**(4,085)**	**–**
New finance leases	**–**	**318**
Unwind of discount and amortization of transaction costs	**101**	**8**
Exchange adjustment	**904**	**12**
At December 31, 2017	**28,039**	**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	**12,686**	6,349
Authorized but not contracted for	**22,952**	30,781
	35,638	37,130

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$59 million (2016: HK$55 million).

(b) Equity compensation benefits

The share option scheme adopted by the Company's subsidiary, HLPL, on November 22, 2002 (the "2002 Share Option Scheme") was terminated upon the adoption of a new share option scheme on April 18, 2012 (the "2012 Share Option Scheme", together with the 2002 Share Option Scheme are referred to as the "Schemes"). No further options shall be offered under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid. The 2012 Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and expiring on the tenth anniversary thereof.

The purposes of the Schemes are to enable HLPL to grant options to selected participants as incentives or rewards for their contributions to HLPL group, to attract skilled and experienced personnel, to incentivize them to remain with HLPL group and to motivate them to strive for the future development and expansion of HLPL group by providing them with the opportunity to acquire equity interests in HLPL.

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

Under the Schemes, the Board of HLPL is authorized to grant options to selected participants, including employees and directors of any company in HLPL group, subject to the terms and conditions such as performance targets as the Board of HLPL may specify on a case-by-case basis or generally. The exercise price of the options is determined by the Board of HLPL at the time of grant, and shall not be less than the higher of the nominal value of HLPL shares, the closing price of HLPL shares at the date of grant and the average closing price of HLPL shares for the five business days immediately preceding the date of grant. The period open for acceptance of the option and amount payable thereon, the vesting period, the exercisable period and the number of HLPL shares subject to each option are determined by the Board of HLPL at the time of grant.

As of the date of this report, the total number of HLPL 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 HLPL. The total number of HLPL shares issued and to be issued upon exercise of options (including both exercised and outstanding) granted to each participant in any 12-month period shall not exceed 1% of HLPL shares in issue.

The movements of share options of HLPL during the year are as follows:

(i) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1,2017	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 of HLPL 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 of HLPL immediately before the dates of exercise by the employees during 2016 was HK$18.27.

The weighted average closing share price of HLPL at the dates of exercise for share options during 2016 was HK$18.47.

The weighted average remaining contractual life of HLPL 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

Date granted	Number of share options: 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 of HLPL were exercised or cancelled during the year.

The closing price of HLPL 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 of HLPL 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 of HLPL 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
HLPL 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 of HLPL granted to the directors of the Company, who were also directors of HLPL, 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 emoluments to directors and key management disclosed in notes 7 and 29(b) and the transactions and balances already disclosed elsewhere in the financial statements, the Group did not have any related party transactions during the years in its ordinary course of business.

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

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$65 million (2016: HK$64 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	**28,039**	**32,470**	**4,194**	**5,904**	**19,020**	**3,352**
Trade and other payables	**7,169**	**7,169**	**5,325**	**1,029**	**707**	**108**
Finance lease obligations	**338**	**550**	**19**	**22**	**71**	**438**
At December 31, 2017	**35,546**	**40,189**	**9,538**	**6,955**	**19,798**	**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	31,119	36,778	1,798	6,028	19,817	9,135
Trade and other payables	6,761	6,761	5,165	872	541	183
At December 31, 2016	37,880	43,539	6,963	6,900	20,358	9,318

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: Hedging instruments HK$ Million	Change in fair value used for measuring hedge ineffectiveness: Hedged items HK$ Million	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: Finance costs HK$ Million	Amount reclassified from hedging reserve to profit or loss that are charged/(credited) to: 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 RMB7,863 million (2016: RMB19,349 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$2,398 million (2016: HK$2,290 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$106 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	**20,705**	18,832
Current asset			
Cash and deposits with banks		**1**	–
Current liability			
Trade and other payables		**15**	14
Net current liabilities		**(14)**	(14)
Total assets less current liabilities		**20,691**	18,818
Non-current liability			
Amounts due to subsidiaries	34(b)	**543**	371
NET ASSETS		**20,148**	18,447
Capital and reserves			
Share capital	22	**4,065**	4,065
Reserves	23	**16,083**	14,382
TOTAL EQUITY		**20,148**	18,447

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	**181**	181
Amounts due from subsidiaries (Note (a))	**20,524**	18,651
	20,705	18,832

Details of principal subsidiaries are set out in note 37.

The following table lists out the information relating to HLPL in which the Group has material non-controlling interest (NCI). The summarized financial information presented below represents the amounts before any inter-company elimination.

	2017 HK$ Million	2016 HK$ Million
NCI percentage at the end of the reporting period	**44.3%**	44.9%
Non-current assets	**161,323**	144,291
Current assets	**22,263**	30,616
Current liabilities	**(9,289)**	(7,827)
Non-current liabilities	**(32,052)**	(34,935)
Net assets	**142,245**	132,145
Carrying amount of NCI	**60,318**	59,333
Revenue	**11,199**	13,059
Profit for the year	**8,550**	6,607
Total comprehensive income for the year	**13,622**	845
Profit allocated to NCI	**3,599**	2,967
Dividend paid to NCI	**1,513**	1,840
Net cash flow:		
generated from operating activities	**8,557**	6,735
(used in)/generated from investing activities	**(14,323)**	1,613
used in financing activities	**(8,087)**	(10,033)

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

(b) Amounts due to subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current liabilities as they are not expected to be repaid within the next twelve months.

35 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.

36 Approval of Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors on January 30, 2018.

37 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
Akihiro Company Limited	2	100	100	Property development & leasing	Hong Kong
Antonis Limited*	10,000	55.7	–	Property leasing	Hong Kong
AP City Limited	2	55.7	–	Property leasing	Hong Kong
AP Joy Limited	2	55.7	–	Property development & leasing	Hong Kong
AP Properties Limited				Property development & leasing	Hong Kong
'A' shares	34	55.7	–		
'B' shares	6	55.7	–		
AP Star Limited*	2	55.7	–	Investment holding	Hong Kong
AP Success Limited	2	55.7	–	Property leasing	Hong Kong
AP Universal Limited*	2	55.7	–	Property leasing	Hong Kong
AP Win Limited*	1,000,000	55.7	–	Property leasing	Hong Kong
AP World Limited	2	55.7	–	Property development & leasing	Hong Kong
Bayliner Investment Ltd.*	US$1	100	100	Investment holding	British Virgin Islands
Believecity Limited*	2	100	–	Investment holding & securities trading	Hong Kong
Bonna Estates Company Limited	1,000,000	55.7	–	Property leasing	Hong Kong
Caddo Enterprises, Limited*	4,000,000	55.7	–	Property leasing	Hong Kong
Cititop Limited	2	55.7	–	Property development & leasing	Hong Kong
Cokage Limited*	2	100	100	Investment holding	Hong Kong
Country Bond Development Limited				Investment holding	Hong Kong
'A' shares	990	54.5	–		
'B' share	1	55.7	–		
Country First Enterprises Limited	2	100	–	Investment holding	Hong Kong
Country Link Enterprises Limited	5,000,000	57.4	–	Investment holding	Hong Kong
Curicao Company Limited*	2	100	–	Investment holding	Hong Kong
Dokay Limited*	2	55.7	–	Property leasing	Hong Kong
Dynamia Company Limited	2	100	100	Property development & leasing	Hong Kong

37 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
Ease Smart Development Limited				Investment holding	Hong Kong
'A' share	1	100	–		
'B' share	1	55.7	–		
Easegood Enterprises Limited	2	55.7	–	Investment holding	Hong Kong
Ever Brilliant Investment Limited	2	100	100	Investment holding	Hong Kong
Fu Yik Company Limited*	3	55.7	–	Property leasing	Hong Kong
Gala Ruby Limited*	2	55.7	–	Investment holding	Hong Kong
Glory View Properties Limited*	2	100	100	Property leasing	Hong Kong
Gowily Limited	2	55.7	–	Property leasing	Hong Kong
Grand Centre Limited	4	55.7	–	Property leasing	Hong Kong
Grand Hotel Group Limited	10,200	55.7	–	Apartment operating & management	Hong Kong
Grand Hotel Holdings Limited				Investment holding	Hong Kong
'A' shares	62,163,123	55.7	–		
'B' shares	6,000,000	55.7	–		
Great Cheer Development Limited	2	100	100	Property development	Hong Kong
Hang Chui Company Limited	2	55.7	–	Property leasing	Hong Kong
Hang Far Company Limited*	2	55.7	–	Investment holding	Hong Kong
Hang Fine Company Limited	200	55.7	–	Property leasing	Hong Kong
Hang Kong Company Limited*	2	100	–	Investment holding	Hong Kong
Hang Kwok Company Limited*	10,000	55.7	–	Property leasing	Hong Kong
Hang Lung (Administration) Limited	10,000	55.7	–	Management services	Hong Kong
Hang Lung (China) Limited	2	100	100	Investment holding	Hong Kong
Hang Lung (Dalian) Limited	1	55.7	–	Investment holding	Hong Kong
Hang Lung Enterprises Limited*	2	100	100	Investment holding	Hong Kong
Hang Lung Financial Services Limited	2	100	100	Financial services	Hong Kong
Hang Lung Investments Limited*	2	100	100	Investment holding	Hong Kong
Hang Lung (Jiangsu) Limited	1	55.7	–	Investment holding	Hong Kong
Hang Lung (Jinan) Limited	1	55.7	–	Investment holding	Hong Kong
Hang Lung (Kunming) Limited	1	55.7	–	Investment holding	Hong Kong
Hang Lung (Liaoning) Limited	1	55.7	–	Investment holding	Hong Kong

37 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 Lung (Shenyang) Limited	2	55.7	–	Investment holding	Hong Kong
Hang Lung (Tianjin) Limited	2	55.7	–	Investment holding	Hong Kong
Hang Lung (Wuhan) Limited	1	55.7		Investment holding	Hong Kong
Hang Lung (Wuxi) Limited	1	55.7	–	Investment holding	Hong Kong
Hang Lung Park-In Limited	2	55.7	–	Property leasing	Hong Kong
Hang Lung Project Management Limited*	10,000	55.7	–	Project management	Hong Kong
Hang Lung Properties Limited	4,497,575,670	55.7	–	Investment holding	Hong Kong
Hang Lung Property Management Limited*	100,000	55.7	–	Property management	Hong Kong
Hang Lung Real Estate Agency Limited*	2	55.7	–	Property agencies	Hong Kong
Hang Lung Treasury Limited	2	100	100	Financial services	Hong Kong
Hebo Limited	2	100	100	Property development	Hong Kong
HL Enterprises Limited*	2	100	100	Investment holding	Hong Kong
HL Mortgage (HTG) Limited*	2	100	100	Financial services	Hong Kong
HL Mortgage (NH) Limited*	2	100	100	Financial services	Hong Kong
HL Mortgage (NP) Limited*	2	100	100	Financial services	Hong Kong
HLP (China) Administrative Limited	1	55.7	–	Management services	Hong Kong
HLP (China) Limited	2	55.7	–	Investment holding	Hong Kong
HLP Finance Limited#	US$1	55.7	–	Financial services	British Virgin Islands
HLP Financial Services Limited	RMB1	55.7	–	Financial services	Hong Kong
HLP Treasury Limited	2	55.7	–	Financial services	Hong Kong
HLP Treasury Services Limited*	2	55.7	–	Financial services	Hong Kong
Hoi Sang Limited*	2	55.7	–	Investment holding	Hong Kong
Kindstock Limited*	2	100	–	Investment holding	Hong Kong
Lockoo Limited*	1,000,002	55.7	–	Property development	Hong Kong
Luckyson Investments Limited	10,000	100	–	Investment holding	Hong Kong
Lungsun Mortgage (PV) Limited*	20	89.7	–	Financial services	Hong Kong
Mansita Limited*	2	55.7	–	Property leasing	Hong Kong
Modalton Limited	2	55.7	–	Property leasing	Hong Kong

37 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
Nikco Limited	2	100	–	Property leasing	Hong Kong
Palex Limited*	2	55.7	–	Property leasing	Hong Kong
Pocaliton Limited	2	55.7	–	Property leasing	Hong Kong
Prosperland Housing Limited	1,560,000	100	100	Investment holding	Hong Kong
Purotat Limited*	2	100	100	Investment holding	Hong Kong
Rago Star Limited	2	55.7	–	Property leasing	Hong Kong
Scotat Limited	2	89.7	–	Investment holding	Hong Kong
Stanman Properties Limited	20	100	100	Property development & leasing	Hong Kong
Stooket Limited	2	55.7	–	Property leasing	Hong Kong
Success Cosmos Development Limited*	2	100	100	Property development	Hong Kong
Tegraton Limited	2	55.7	–	Property leasing	Hong Kong
Topnic Limited	2	100	100	Property leasing	Hong Kong
Total Select Limited	1	55.7	–	Investment holding	Hong Kong
Wai Luen Investment Company, Limited*	100,000	55.7	–	Property leasing	Hong Kong
Yangli Limited*	2	55.7	–	Property leasing	Hong Kong
Yee Fly Investment Limited*	1,000	100	100	Investment holding & securities trading	Hong Kong

37 Principal Subsidiaries (Continued)

At December 31, 2017

Wholly Foreign Owned Enterprises in mainland China	Registered Capital	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Dalian Hang Lung Properties Ltd.	RMB4,136,877,355	55.7	–	Property development & leasing	Mainland China
Kunming Hang Ying Properties Ltd.	RMB5,187,321,800	55.7	–	Property development	Mainland China
Liaoning Hang Lung Properties Ltd.	RMB5,632,096,324	55.7	–	Property development & leasing	Mainland China
Shandong Hang Lung Properties Ltd.	US$385,000,000	55.7	–	Property development & leasing	Mainland China
Shenyang Hang Lung Properties Ltd.	US$349,990,000	55.7	–	Property development & leasing	Mainland China
Tianjin Hang Lung Properties Ltd.	HK$4,229,600,000	55.7	–	Property development & leasing	Mainland China
Wuxi Hang Lung Properties Ltd.	RMB4,037,746,261	55.7	–	Property development & leasing	Mainland China
Wuxi Hang Ying Properties Ltd.	RMB492,716,180	55.7	–	Property development	Mainland China
Hubei Hang Lung Property Development Co., Ltd.	RMB4,850,000,000	55.7	–	Property development	Mainland China

Equity Joint Ventures in mainland China	Registered Capital (US$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Shanghai Hang Bond Property Development Co., Ltd.	167,004,736	54.3	–	Property development & leasing	Mainland China
Shanghai Heng Cheng Real Estate Development Co., Ltd.	17,766,000	70	–	Property development	Mainland China
Shanghai Kong Hui Property Development Co., Ltd.	165,000,000	53.9	–	Property development & leasing	Mainland China

Operated in Hong Kong

* Not audited by KPMG

The above list gives the principal subsidiaries of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

38 Principal Joint Ventures

At December 31, 2017

Company	Issued Share Capital (US$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Daily Win Development Limited	400	25	–	Property leasing	Hong Kong
Hang Hing Mortgage (TH) Limited	2	50	–	Financial services	Hong Kong
Hang Lung-Hakuyosha Dry Cleaning Limited	519,000	50	–	Dry and laundry cleaning	Hong Kong
Metro Classic Holdings Limited	US$1	20	–	Property development	British Virgin Islands
Metro Trade International Limited	US$60	20	–	Property development	British Virgin Islands
Newfoundworld Finance Limited	100,000	20	–	Financial services	Hong Kong
Newfoundworld Holdings Limited	2,000,000	20	–	Investment holding	Hong Kong
Newfoundworld Investment Holdings Limited	US$5	20	–	Investment holding	British Virgin Islands
Newfoundworld Limited	2,000,000	20	–	Property development	Hong Kong
Pure Jade Limited	1,000,000	20	–	Property development	Hong Kong
Star Play Development Limited	3	18.6	–	Property leasing	Hong Kong

The above companies are not audited by KPMG.

The above list gives the principal joint ventures of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

Ten-Year Financial Summary

in HK$ million (unless otherwise stated)	2017	2016	2015	2014
	For the years ended December 31			
CONSOLIDATED STATEMENT OF PROFIT OR LOSS				
Revenue				
Property leasing	**8,354**	8,326	8,330	7,792
Property sales	**3,420**	5,322	1,198	9,814
	11,774	**13,648**	**9,528**	**17,606**
Gross profit				
Property leasing	**6,074**	6,129	6,110	5,987
Property sales	**2,238**	3,209	845	7,419
	8,312	**9,338**	**6,955**	**13,406**
Underlying net profit attributable to shareholders	**3,314**	**3,772**	**2,700**	**5,730**
Effect of changes in fair value of properties	**2,000**	(59)	511	1,095
Net profit attributable to shareholders	**5,314**	**3,713**	**3,211**	**6,825**
Dividends for the year/period	**(1,089)**	(1,089)	(1,084)	(1,097)
Retained profits for the year / period	**4,225**	**2,624**	**2,127**	**5,728**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Net assets employed (Note 2)				
Investment properties	**142,406**	133,005	137,338	128,357
Investment properties under development	**21,592**	17,282	16,709	25,611
Properties for sale	**1,634**	2,374	3,852	4,068
Other assets	**7,933**	9,184	6,325	7,014
	173,565	161,845	164,224	165,050
Other liabilities	**(18,193)**	(17,237)	(18,074)	(20,582)
	155,372	**144,608**	**146,150**	**144,468**
Financed by				
Shareholders' equity	**83,137**	75,658	75,470	76,026
Non-controlling interests	**66,419**	62,355	64,832	68,670
Net debt/(cash)	**5,816**	6,595	5,848	(228)
	155,372	144,608	146,150	144,468
Number of shares issued (in million)	**1,362**	1,362	1,355	1,355
PER SHARE DATA				
Basic earnings (HK$)	**$3.90**	$2.73	$2.37	$5.04
Dividends (HK cents)	**80¢**	80¢	80¢	81¢
Interim	**19¢**	19¢	19¢	19¢
Final	**61¢**	61¢	61¢	62¢
Shareholders' equity (HK$)	**$61.0**	$55.5	$55.7	$56.1
Net assets (HK$)	**$109.8**	$101.3	$103.5	$106.8
Dividend payout ratio	**20%**	29%	34%	16%
Underlying dividend payout ratio	**33%**	29%	40%	19%
FINANCIAL INDICATORS				
Net debt to equity	**3.9%**	4.8%	4.2%	0.0%
Debt to equity	**18.7%**	22.5%	26.6%	27.7%
Interest cover (times)	**10**	14	14	25
Return on average shareholders' equity	**6.7%**	4.9%	4.2%	9.3%

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
7,216	6,711	3,168	5,711	5,069	4,685	4,186
2,518	1,275	193	3	7,511	11	6,367
9,734	**7,986**	**3,361**	**5,714**	**12,580**	**4,696**	**10,553**
5,731	5,313	2,503	4,574	4,096	3,813	3,347
1,521	847	150	2	5,256	3	3,426
7,252	**6,160**	**2,653**	**4,576**	**9,352**	**3,816**	**6,773**
3,071	**3,564**	**1,000**	**1,733**	**3,695**	**1,454**	**2,555**
1,486	1,698	578	1,796	9,444	1,105	4,961
4,557	**5,262**	**1,578**	**3,529**	**13,139**	**2,559**	**7,516**
(1,079)	(1,066)	(512)	(1,025)	(1,017)	(941)	(941)
3,478	**4,196**	**1,066**	**2,504**	**12,122**	**1,618**	**6,575**
115,818	106,102	101,833	94,003	88,633	69,958	66,136
30,478	24,482	23,613	21,524	15,326	7,570	5,658
5,717	6,139	6,145	5,994	5,886	7,714	6,848
7,248	5,997	5,348	5,572	4,815	3,802	4,109
159,261	142,720	136,939	127,093	114,660	89,044	82,751
(17,533)	(15,643)	(14,226)	(14,269)	(13,377)	(8,441)	(10,892)
141,728	**127,077**	**122,713**	**112,824**	**101,283**	**80,603**	**71,859**
70,572	65,224	60,510	58,972	52,973	40,640	36,782
65,836	64,391	60,658	61,225	49,372	38,129	35,275
5,320	(2,538)	1,545	(7,373)	(1,062)	1,834	(198)
141,728	127,077	122,713	112,824	101,283	80,603	71,859
1,350	1,350	1,348	1,348	1,339	1,334	1,334
$3.38	$3.90	$1.17	$2.62	$9.83	$1.92	$5.64
80¢	79¢	38¢	76¢	76¢	70.5¢	70.5¢
19¢	19¢	–	19¢	19¢	16.5¢	16.5¢
61¢	60¢	38¢	57¢	57¢	54¢	54¢
$52.3	$48.3	$44.9	$43.7	$39.6	$30.5	$27.6
$101.0	$96.0	$89.9	$89.2	$76.4	$59.0	$54.0
24%	20%	32%	29%	8%	37%	13%
35%	30%	51%	59%	28%	65%	37%
3.9%	0.0%	1.4%	0.0%	0.0%	2.8%	0.4%
33.0%	29.0%	22.9%	17.4%	10.5%	14.6%	14.6%
23	60	44	63	33	21	31
6.7%	8.4%	5.3%	6.3%	28.1%	6.6%	22.8%

Glossary

Financial Terms

Finance 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 Group 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
HLPL	Hang Lung Properties Limited (the Company's listed subsidiary)
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
NED(s)	non-executive director(s)
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)*
Gerald L. Chan#
Simon S.O. Ip *GBS, CBE, JP**
L.C. Tsui *OC, GBM, GBS, JP**
Martin C.K. Liao *SBS, JP**
P.W. Liu *SBS, JP**
George K.K. Chang#
Roy Y.C. Chen#
H.C. Ho *(Chief Financial Officer)*
Adriel W. Chan

Non-Executive Director
* *Independent Non-Executive Director*

Audit Committee
Simon S.O. Ip *GBS, CBE, JP (Chairman)*
L.C. Tsui *OC, GBM, GBS, JP*
P.W. Liu *SBS, JP*
George K.K. Chang

Nomination and Remuneration Committee
P.W. Liu *SBS, JP (Chairman)*
Simon S.O. Ip *GBS, CBE, JP*
Martin C.K. Liao *SBS, 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.hanglunggroup.com
Email address: HLGroup@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)	11:00 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

1,361,618,242 shares listed on The Stock Exchange of Hong Kong Limited

Stock Code

Hong Kong Stock Exchange: 00010
Reuters: 0010.HK
Bloomberg: 10 HK

Board Lot Size (Share)

1,000

American Depositary Receipt (ADR)

Sponsored Level-1 (Over the Counter)
CUSIP Number/Ticker Symbol: 41043E102/HNLGY
ADR to Underlying Share Ratio: 1:5
Depositary Bank: The Bank of New York Mellon
Website: http://www.adrbnymellon.com

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Tel: 2862 8555
Fax: 2865 0990

Investor Relations Contact

C.F. Kwan
Email address: ir@hanglung.com

Share Information

	Share Price		Total Trading Volume
	High HK$	Low HK$	Number of Shares ('000)
2017			
First quarter	35.90	26.75	70,084
Second quarter	34.95	30.55	45,579
Third quarter	32.50	27.50	42,214
Fourth quarter	29.25	26.10	50,873
Share Price as at December 31, 2017:			**HK$28.75**
Market Capitalization as at December 31, 2017:			**HK$39.15 billion**

	Share Price		Total Trading Volume
	High HK$	Low HK$	Number of Shares ('000)
2016			
First quarter	25.20	19.46	142,151
Second quarter	24.50	20.05	82,675
Third quarter	30.95	22.70	71,107
Fourth quarter	32.35	26.15	206,273
Share Price as at December 31, 2016:			**HK$27.00**
Market Capitalization as at December 31, 2016:			**HK$36.76 billion**

Design, Production and Printing: REF Financial Press Limited www.ref.com.hk

STOCK CODE
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