

THE HEARTBEAT OF
HONG KONG



2017 ANNUAL REPORT



LEIGH GARDENS



 **Hysan** 希慎

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In an effort to reduce consumption of resources due to printing and distributing hard copies, the Hysan Corporate Responsibility Report has been prepared for electronic distribution and is available for public viewing on Hysan Development's website (www.hysan.com.hk). Limited copies are printed and distributed, primarily to our shareholders.

A summary of the Corporate Responsibility Report is provided on pages 101 and 102 of this Annual Report.

The gloom lifted from both the global and Hong Kong economies in 2017, but significant structural change to Hysan's retail and office sectors remained. In this Annual Report, we highlight our effort to address these challenges, and more importantly, how we plan ahead and provide stewardship to our unique home base, Lee Gardens, where you will hear not just the heartbeat of Causeway Bay, but the heartbeat of Hong Kong.



Structural Change

Retail

- / Generational shift: Millennials and Generation Z'ers drive changes in where, what, how and when products and services are delivered
- / Demographic changes: need to cater to the needs of tourists, "New Hong Kong" and "Old Hong Kong" residents
- / Technological advancements: challenges from e-commerce, the prevalence of social media and reliance on mobile technology
- / Mall operators and retailers: need to partner and provide unique and personalised shopping experience
- / Luxury sector changes: definition of luxury now encompasses health and well-being as well as children-centric offerings



Office

- / Younger and incoming office workers: prefer to be more mobile and work in more social settings
- / Co-working space: a major disruptor and growing trend, with brands using unique ways to attract space users
- / Traditional office leasing: multinationals opting to relocate to non-Central core areas to avoid record high rents in Central
- / Causeway Bay as office destination: convenient and cost effective, but sees competition from other office areas on the Island and Kowloon



Hysan's Progress in 2017

Continued to create an inclusive retail and office ecosystem that reflects the needs and demands of modern-day users within a community-friendly environment

Dynamic curation of our retail portfolio with an exciting mix of top name tenants and emerging brands. Lee Garden Three is our lifestyle extension which further confirms our commitment to lifestyle and food and beverage



Strong tenant collaboration programmes attracted attention, footfall and spending; sales incentive programmes achieved good sales



Offered offices at Leighton Centre to up-and-coming NGOs, representing Hysan's commitment to foster innovation and serve the community

LEE GARDEN TWO

Loyalty programmes made significant year-on-year percentage growth on membership numbers and healthy sales growth

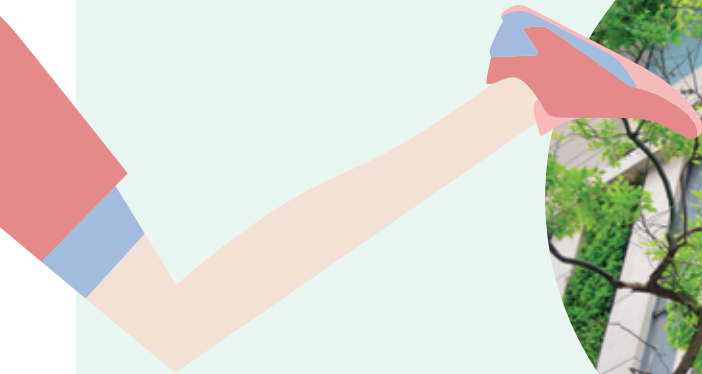


LEE GARDENS

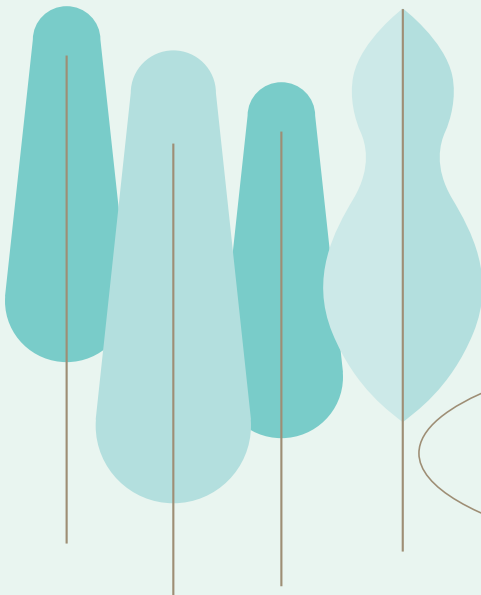
Lee Garden Three

Completed in 2017, and first office tenant moved in in December

Building is positioned as our area's lifestyle extension and office floors welcome tenants from a diverse business background



Wellness theme with jogging track, green roof and butterfly garden



Well-known community-based co-working brand is a major tenant



Retail podium includes iconic food and beverage and lifestyle offerings



Looking Ahead

Promote lifestyle through food and beverage, as well as health and wellness in an environment with a strong sense of community

♥ like

Help define new retail where emerging consumers demand and define quality through uniqueness, sustainability, honesty and individuality

Provide more tech-enabled environment, with more collaboration and experience sharing

Explore more aspects of the sharing economy, including an enhanced co-working community, as well as co-living arrangements

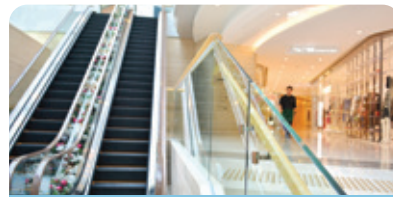


tea time



Free WiFi Zone

LEE GARDENS



find your workspace



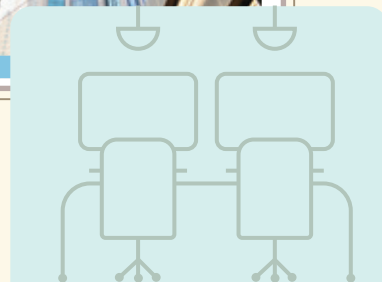
Lee Garden Three



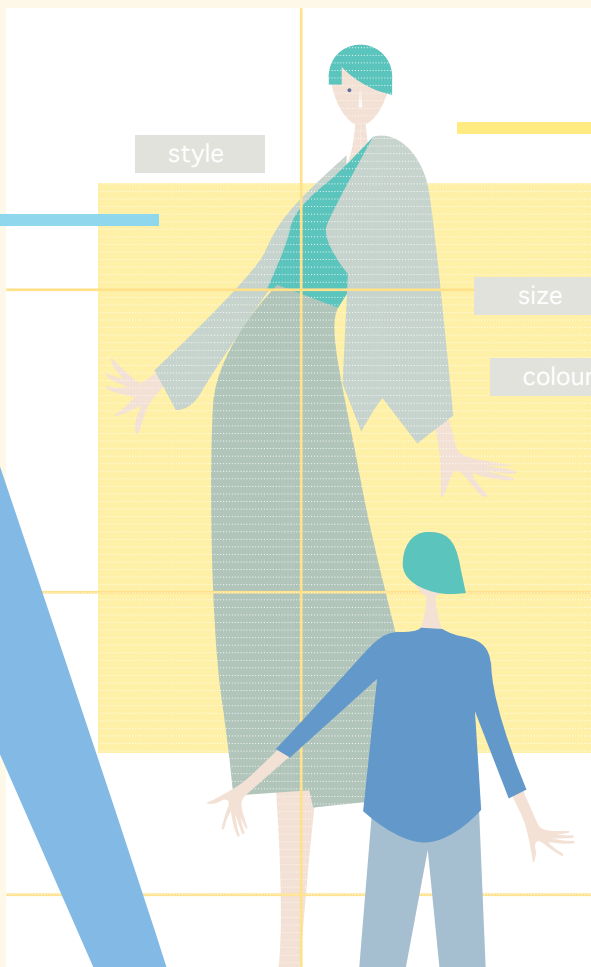
be our partner



meeting space



co-working space



Grow sustainable community –
based working environment, where
work-life balance is valued



Strive to innovate and
curate relevant content for
the Lee Gardens community



Continue to support
brands that offer
classic luxury



Overview

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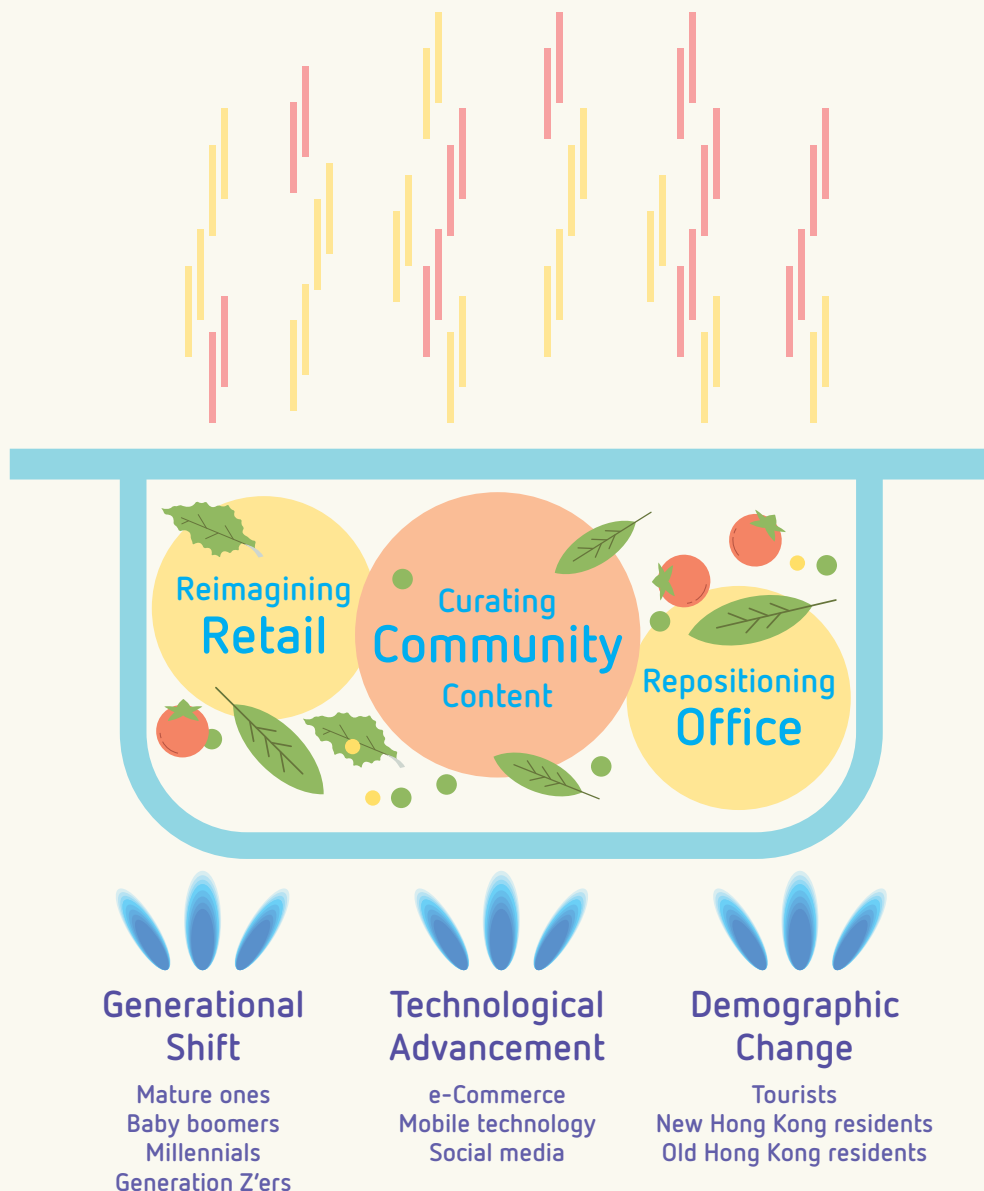


Hysan's Lee Gardens

The heartbeat of Causeway Bay



Hysan's Lee Gardens is a community of contrast and diversity. Here classic labels and lifestyle brands shape the retail landscape, merging seamlessly with a work-life balanced and tech-friendly office environment. The district and its business setting, however, are facing structural challenges in the forms of generational shift, demographic changes and relentless technological advancements. The Group is addressing these challenges through repositioning and reimagining its retail strategy and operation to provide the special touch, as well as embracing the collaborative work model for its office portfolio. Adding to these is the push to innovate and curate unique content for the Lee Gardens neighbourhood and community.



Key Facts

Our Portfolio

Hysan’s investment portfolio is set predominantly in Lee Gardens, a unique part of Hong Kong’s renowned commercial heart in Causeway Bay. Our ownership concentration makes us stand out, as it magnifies our ability to create synergies from different tenants within our remarkable community.

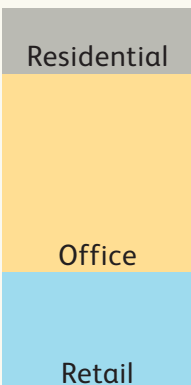
Within our approximately 4.5 million square feet of retail, office and residential tenant space, including the recently completed Lee Garden Three, we strive to become close partners with our tenants. By understanding and connecting our tenants’ and our customers’ needs, we create a sustainable community.

A key feature of Hysan’s portfolio, which comprises principally retail and office segments, is its balanced and diversified nature.

Overall

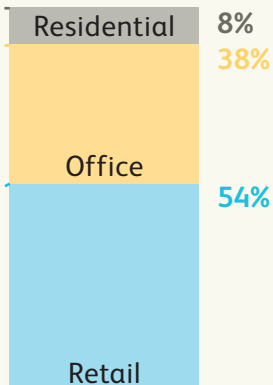
Investment Properties
(by Gross Floor Area excluding Lee Garden Three)

Total Gross Floor Area
4.1 million sq. ft. (approx.)



Investment Properties
(by Turnover Contribution)

Turnover
HK\$3,548 million



How We Do Things

VISION

To be the PREMIER property company which is superior to its peers in its market of choice.

MISSION

Provide our stakeholders with sustainable and outstanding returns from a property portfolio which is strategically planned and managed by passionate, responsible and forward-looking professionals.

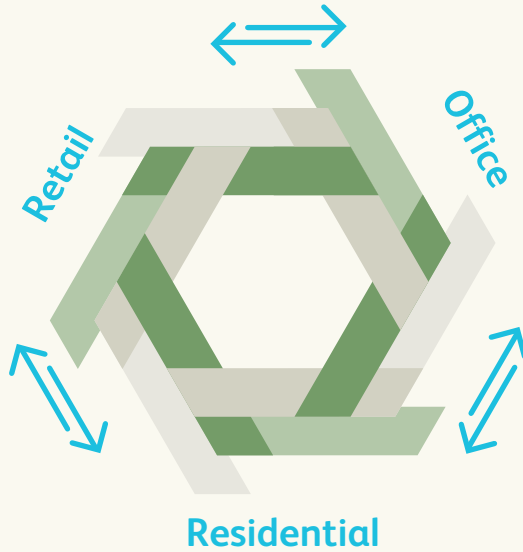
VALUES

- Leadership
- Excellence
- Empowerment
- Good Citizenship
- Accountability
- Respect
- Driving / Driven
- Entrepreneurship
- Networking
- Sustainability

Value Creation

Financial Achievements:

- Steady and progressive total return
- Strong Balance Sheet



Interaction among our business units drives synergies, cross-sell opportunities to optimise the full potential of the portfolio

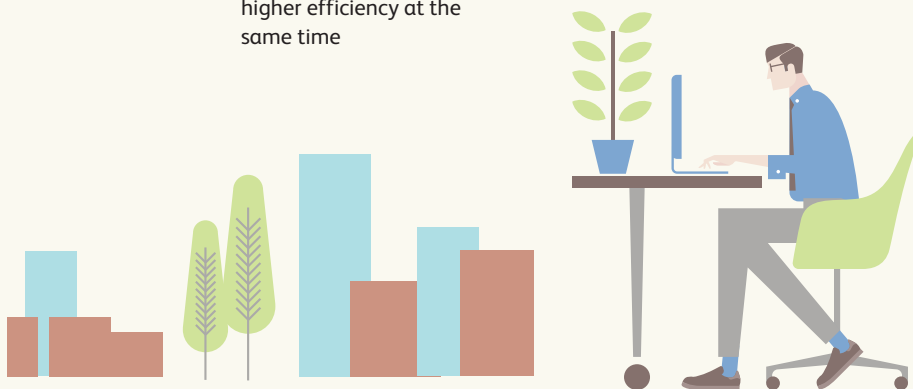
Supported by Strong Underlying Non-Financial Achievements:

Environment

Minimise our impact on the environment, and achieve higher efficiency at the same time

Employees

Create working environment for talent to thrive



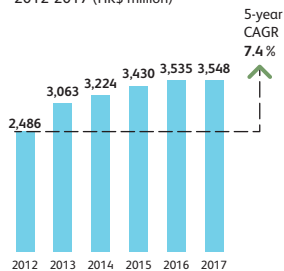
Continue strong focus in Causeway Bay and concurrently seek opportunities beyond our core portfolio

Increase Yields

through active management including tenant mix improvement

Turnover

2012-2017 (HK\$ million)



Asset Enhancement

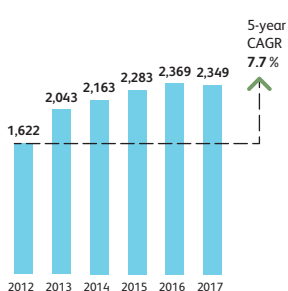
balance longer-term projects with those that produce more immediate returns

Financial Achievements

increase earnings

Recurring Underlying Profit

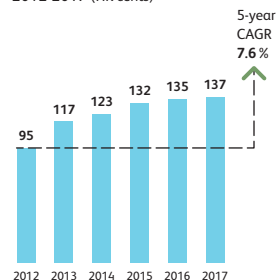
2012-2017 (HK\$ million)



Dividends per Share

provide steady growth

2012-2017 (HK cents)

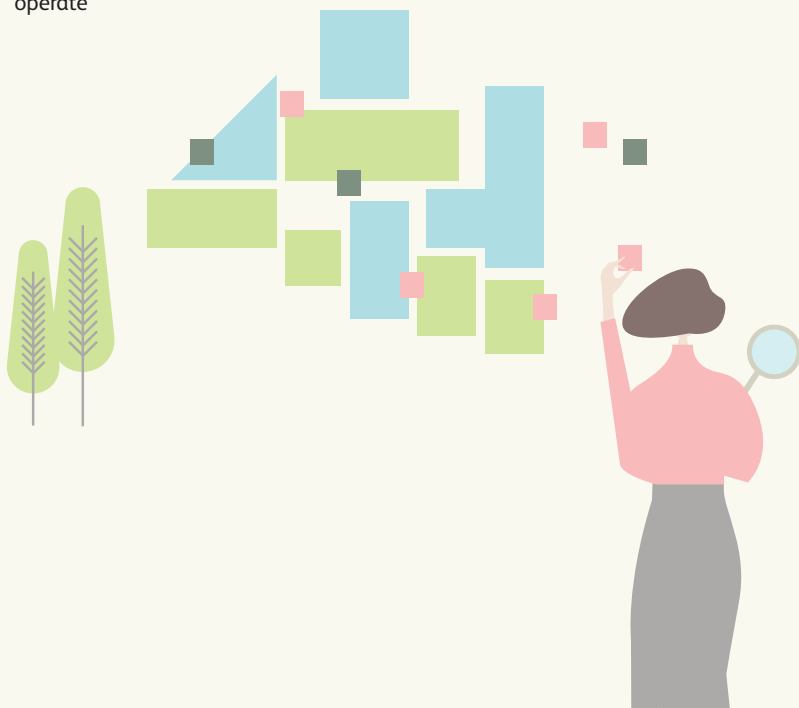


Governance

Strong governance is the heart of long-term sustainable performance

Community

Make positive contributions to communities where we operate



Key Facts

Our Assets

Bamboo Grove

74-86 Kennedy Road, Mid-Levels
Completed 1985 / Renovated 2002

Approx. Gross Floor Area **691,000** ft²
Number of Units **345** Parking Spaces **436**

Quality international living in Mid-Levels

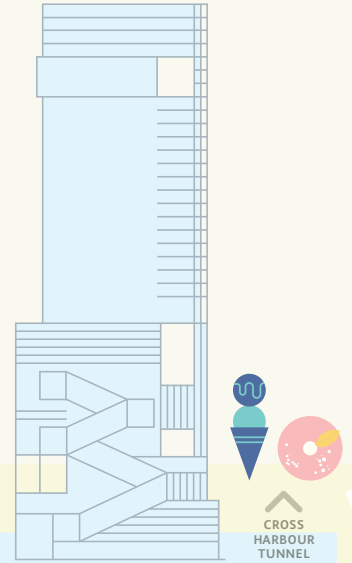


Hysan Place

500 Hennessy Road, Causeway Bay
Completed 2012

Approx. Gross Floor Area **716,000** ft²
Number of Floors **40** Parking Spaces **66**

Greenest commercial building and trendiest shopping centre in town



Lee Theatre Plaza

99 Percival Street, Causeway Bay
Completed 1994 / Renovation of lower zone 2013

Approx. Gross Floor Area **314,000** ft²
Number of Floors **26**

One of Hong Kong's best-loved shopping and dining complexes

Leighton Centre

77 Leighton Road, Causeway Bay
Completed 1977 / Renovated 2011

Approx. Gross Floor Area **430,000** ft²
Number of Floors **28** Parking Spaces **321**

Popular office complex amongst sports and lifestyle shops

One Hysan Avenue

1 Hysan Avenue, Causeway Bay
Completed 1976 / Renovated 2011

Approx. Gross Floor Area **169,000** ft²
Number of Floors **26**

Efficient office and retail building in prime site



■ Retail and Office
 ■ Retail only
 ■ Residential

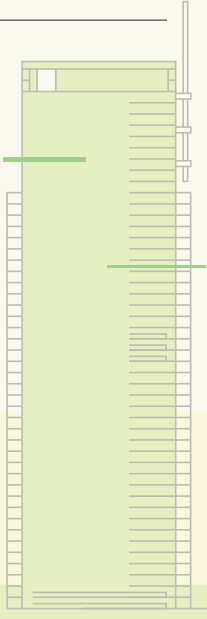


Lee Garden One

33 Hysan Avenue, Causeway Bay
Completed 1997

Approx. Gross Floor Area **903,000** ft²
Number of Floors **53** Parking Spaces **200**

Home to international corporations and premium brands

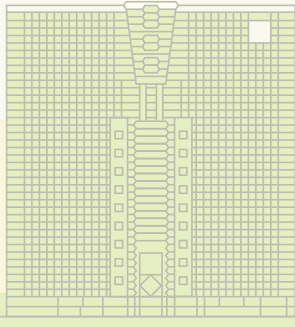


Lee Garden Two

28 Yun Ping Road, Causeway Bay
Completed 1992 /
Renovation of retail podium 2003

Approx. Gross Floor Area **620,000** ft²
Number of Floors **34** Parking Spaces **167**

Spacious offices plus renowned children's concept floor

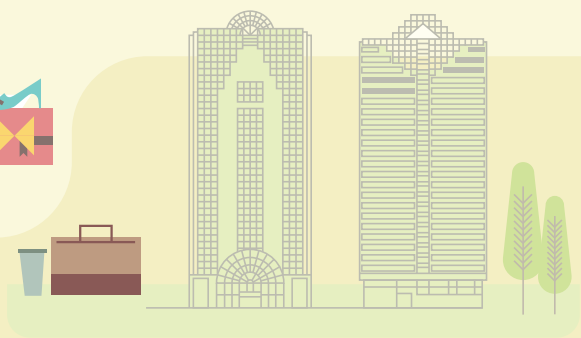
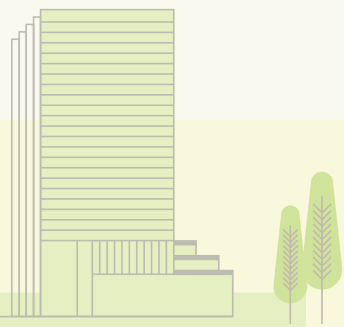


Lee Garden Three

1 Sunning Road, Causeway Bay
Completed 2017

Approx. Gross Floor Area **467,000** ft²
Number of Floors **32** Parking Spaces **201**

Brand new commercial address in Lee Gardens



Lee Garden Five

18 Hysan Avenue, Causeway Bay
Completed 1989 / Renovated 2009

Approx. Gross Floor Area **132,000** ft²
Number of Floors **25**

A 25-level office and retail complex

Lee Garden Six

111 Leighton Road, Causeway Bay
Completed 1988 / Renovated 2004

Approx. Gross Floor Area **80,000** ft²
Number of Floors **24**

Convenient office location with retail shops

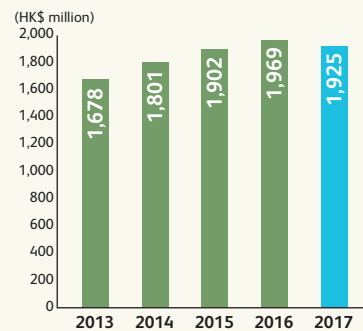
2017 Performance at a Glance

Financial Performance

Turnover **HK\$3,548m**
^ 0.4%

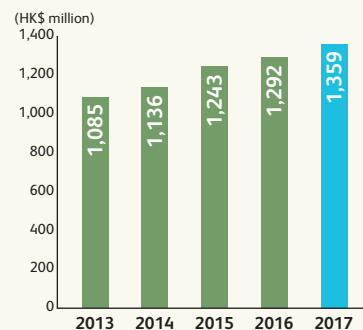
Retail Sector

HK\$1,925m v 2.2%



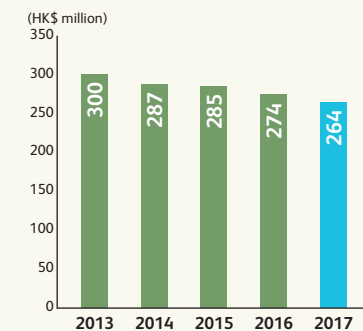
Office Sector

HK\$1,359m ^ 5.2%

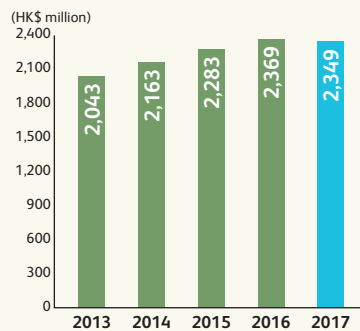


Residential Sector

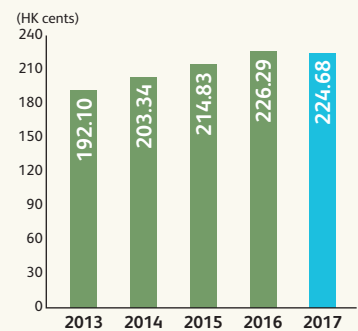
HK\$264m v 3.6%



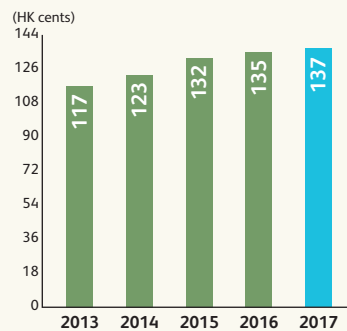
Recurring Underlying Profit **HK\$2,349m**
v 0.8%



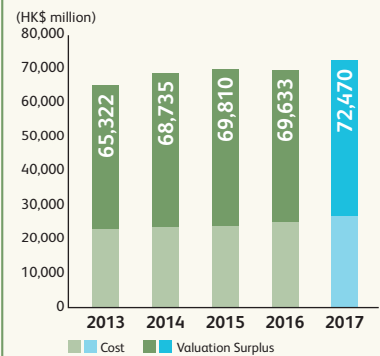
Recurring Underlying Earnings per Share **HK224.68cents**
v 0.7%



Dividends per Share **HK137cents**
^ 1.5%

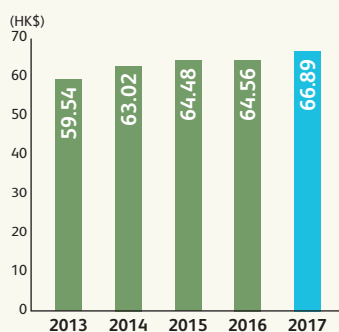


Property Value **HK\$72,470m**
^ 4.1%



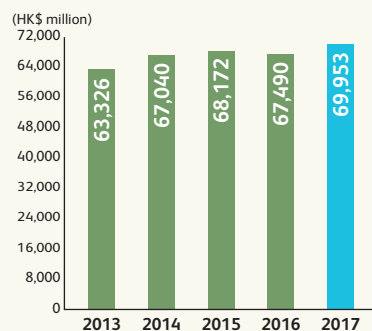
Net Asset
Value per
Share

HK\$66.89
↑ 3.6%



Shareholders' Funds

HK\$69,953m
↑ 3.6%



Financial Prudence

Net Interest Coverage (Note 1)

17.1 times
(2016: 20.5 times)

Net Debt to Equity (Note 2)

5.0%
(31 Dec 2016: 5.4%)

Average Finance Cost

3.4%
(2016: 3.8%)

Average Debt Maturity

4.3 years
(31 Dec 2016: 4.3 years)

Fixed Rate Debt

74.9%
(31 Dec 2016: 73.4%)

Capital Market Issuances

74.9%
(31 Dec 2016: 73.4%)

Credit Ratings

Moody's: A3
Standard and Poor's: BBB+

Notes:

- 1 Net Interest Coverage is defined as gross profit less administrative expenses before depreciation divided by net interest expenses
- 2 Net Debt to Equity is defined as borrowings less time deposits, cash and bank balances divided by shareholders' funds



2017 Performance at a Glance

Non-Financial Performance



Environment

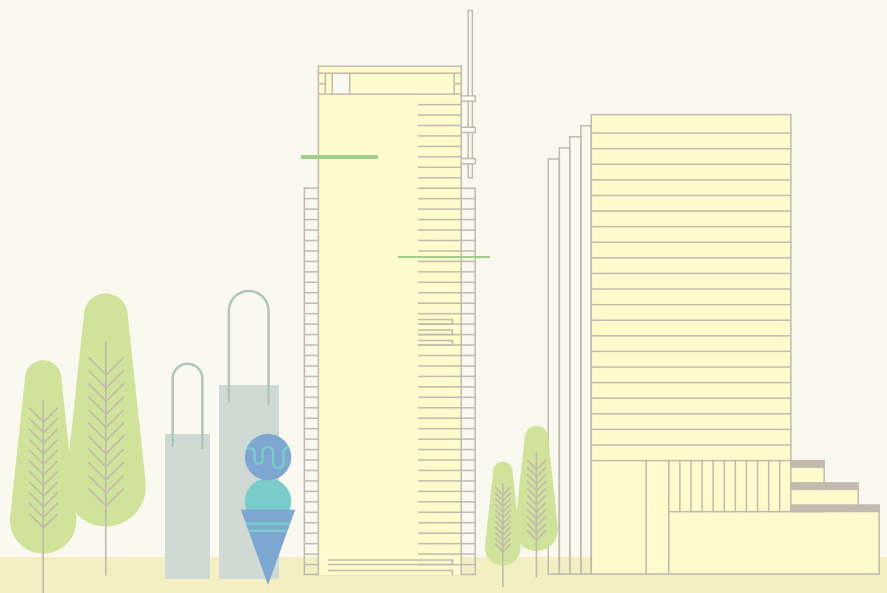
“AA”

- MSCI Global Sustainability Indexes: “AA” Rating

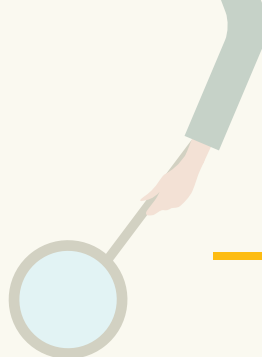
“AA”

- Hang Seng Corporate Sustainability Index: “AA” Rating

- Lee Garden Three achieved United States Green Building Council’s LEED (Core and Shell) Gold pre-certification
- Lee Garden One Offices achieved Final Platinum rating under Hong Kong Green Building Council’s BEAM Plus Existing Buildings; Lee Garden Three and Hysan Place were given Provisional Platinum rating under BEAM Plus New Buildings and Existing Buildings respectively



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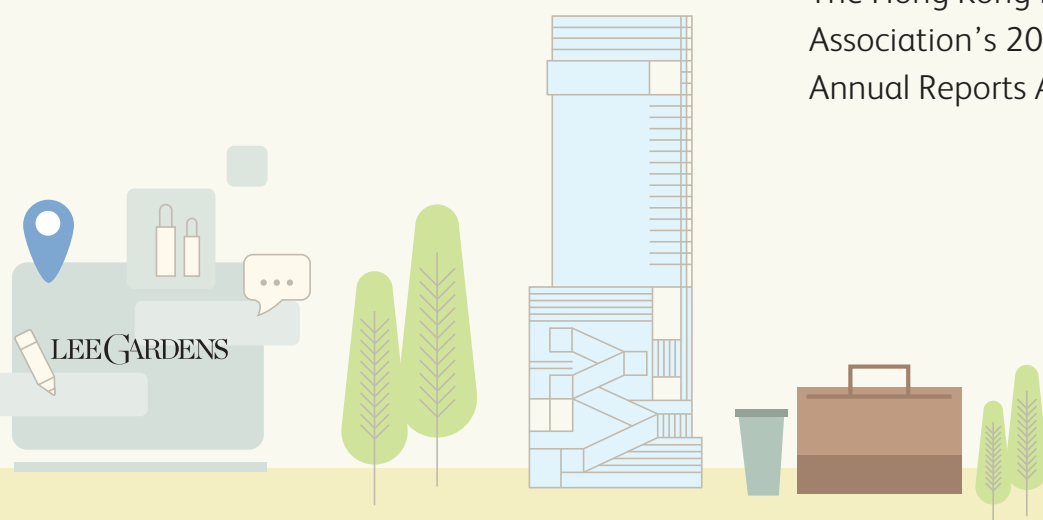


Social

- Constituent member of FTSE4Good index
- MSCI Global Sustainability Indexes: “Top 5 Industry Leaders” in the sub-category of “human capital development”
- Silver Award for Volunteer Service (Organisation) (in 2017) under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department

Governance

- Gold Award (Non-Hang Seng Index Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants’ Best Corporate Governance Awards 2017
- Winner (Category 2: Main Board Companies, Hang Seng Composite Index Constituent Companies) in The Chamber of Hong Kong Listed Companies’ Hong Kong Corporate Governance Excellence Awards 2017
- Bronze Award (General Category) in The Hong Kong Management Association’s 2017 HKMA Best Annual Reports Awards



From the heartbeat of
Causeway Bay...



... to the heartbeat of Hong Kong



Navigating through the structural challenges, we are determined to give Lee Gardens added dimensions. The future direction of consumption will redefine the *how*, *when* and *what*. The *why* will demand qualities which embrace sustainability and individuality. This will be the era of “new retail” when both brands and landlords need to re-examine how to best reach their audience in a world where the online and offline have accelerated their collaboration. The office community will be a hotbed for cooperation and experience sharing. We strive to turn Lee Gardens into the heartbeat of Hong Kong.



Chairman's Statement

We are keen to foster innovation within the commercial real estate sector and to implement disruptive technology while still leveraging our prime strengths to drive long-term growth.



The global economy experienced reasonable growth in 2017, due to a combination of monetary policy accommodation, fiscal policy stimulation and an overall improvement in trade.

The Hong Kong economy also shrugged off the gloom of 2016. Good labour market conditions, strong asset prices and stock market all helped to create a wealth effect which drove an improvement in domestic spending. In addition, the statistics for visitor arrivals were also encouraging, including an increase of 3.9% in inbound Mainland Chinese tourists in 2017, as compared to 2016.

As a result of positive macro conditions, Hong Kong's retail sales saw a slight uptick in growth after several years of decline. Jewellery and watches were the strongest performers, and almost all mid-priced to affordable item categories registered healthy growth.

Although the economic recovery appears fairly robust, structural changes cannot be ignored. In this report, we provide updates on the challenges we are facing. More importantly, we highlight the actions we took in 2017 to address these issues, as well as our plans to respond to these changes in the near to medium term.

Retail

Among the most significant retail structural changes is the "generational shift". The Millennials and Generation Z'ers have different needs to the older generations, and these needs are driving changes in the where, what, how and when products and services are delivered. There is also a clear "demographic change" in Hong Kong

whereby Mainland Chinese tourists, as well as “New Hong Kong” residents are revealing themselves as mature and sophisticated spenders who demand quality products and services. We need to cater simultaneously to the needs of tourists, newer residents who came to settle in Hong Kong over the past 10 to 20 years, and the “old” Hong Kong.

Technological advancements clearly represent another facet of structural change within the retail industry. The relentless growth of e-commerce, the ever-increasing dominance of mobile technology, the prevalence of social media in our everyday lives: these factors place serious demands on retailers to make swift and drastic changes. As the landlord and venue provider for a wide range of retailers, we have to constantly enhance our retail environment to cater to these changes. Our tenant collaboration programmes, as noted in the section on Hysan’s progress in 2017, highlight the importance we place on our partnerships with tenants.

Generational and demographic changes, as well as the extensive use of technology are causing many shoppers to look further into what they really want when they shop. Brands and retailers, as well as online operators, are making their moves to address these issues. Hysan, as a landlord mall operator, needs to re-invent and re-imagine both strategically and operationally. Giving shoppers special attention is now just as important as providing for the straightforward sale of goods. To provide that “extra special” touch, retailers and mall operators now try to make the shopping experience socially pleasant and interesting by offering personalised and unique services to delight and surprise, while making use of technology to enhance these special offerings. All shopping malls in Hong Kong are now seeking to entice shoppers with this experiential approach. Hysan has started the journey into new retail and we will continuously adapt our offerings.

The luxury sector has been challenging. Despite the fact that consumer sentiment for purchasing certain luxury goods, such as jewellery and watches, has rebounded to a level close to that seen earlier in the decade, consumer behaviour and taste for the high-end subsectors have changed in the past few years. The definition of luxury stretches beyond buying exclusive or expensive goods. It now encompasses health and well-being as well as children-centric offerings, all within a highly demanding enhanced environment.

Office

Office leasing faces its own set of significant challenges, much of which is related, again, to generational change. The younger and incoming members of the workforce now subscribe to a more fluid and mobile work style, instead of being tied down to a desk, or even an office. They prefer to work in a social setting, not just with colleagues, but in an environment where they can exchange ideas and contacts with people from other fields and disciplines.

Chairman's Statement

Co-working space is a major disruptor and is a growing trend. Several internationally-renowned co-working brands have obtained footholds in Hong Kong, while other more regional and local names are making an impact by adopting unique ways to attract short or longer-term office space users. Hysan has embraced the collaborative work model with an increase of our office portfolio's exposure to over 5%.

Looking at office leasing through a more traditional lens, Hong Kong's Central district is still the favourite destination of Mainland Chinese financial institutions, with a number of professional firms servicing these clients also taking up Central spaces with record or near-record high rents. Non-Central core areas are generally still supported by the spill-over effect, with some multinational companies opting to relocate to these popular districts, such as Causeway Bay, that are just two or three MTR stops away from Central. Outside Central, we note that while the value for money differential between Causeway Bay and other office areas on the Island and on Kowloon side still exists, the competition from these areas remains strong.

Hysan's Progress in 2017

Hysan continued to launch new initiatives to address challenges in our retail and office portfolios.

A new addition to our already well-balanced Causeway Bay commercial portfolio is Lee Garden Three. The building is positioned as our area's lifestyle extension. The commercial building received its first new office tenant in December 2017. A number of other multinational enterprises, from a diverse business background, are putting the final touches to their interior works and will soon be operating in the office portion of the building. Spaces, a well-known community-based co-working brand, has chosen Lee Gardens as its flagship base in Hong Kong. It highlights our commitment to participate in the future growth of the co-working sector. In addition, the retail podium will see the launch of a range of exciting food and beverage outlets, as well as lifestyle shops complementing existing ones in the Lee Gardens area.

For our retail portfolio in general, while retaining top name tenants, we have also enhanced the trade mix by introducing a significant number of popular lifestyle brands. These complement our more established food and beverage venues.

We have focused our marketing efforts in new tenant collaboration programmes. Some examples include a partnership with the revamped Louis Vuitton shop, a much-talked-about eslite summer programme, and a colourful I.T. showcase. All of these have attracted considerable media attention, extensive footfall and healthy spending. Our popular sales incentive programmes have also achieved good sales figures. Our loyalty clubs, including both the VIP Club Avenue and the general shoppers' Lee Gardens Plus, recorded significant percentage growth of year-on-year membership numbers, and importantly, also achieved healthy sales growth.

As for our office portfolio, we continued to provide tenancy for office users from different business sectors and different types of users. We are creating an inclusive office community that fits the needs and demands of modern-day users. We have a diverse portfolio of office tenants which includes sales, banking, finance, insurance, technology, health and wellness, as well as high-end brands.

Further, we have offered offices at Leighton Centre to three up-and-coming NGOs from different backgrounds: design and elderly services, performing arts and technological development. The initiative represents Hysan's continuing commitment to foster innovation and serve our community.

Looking Ahead

Lee Gardens' retail portfolio has long been associated with brands that sell the finer things in life. While we will continue to support brands that offer classic luxury, our commitment to promote lifestyle through food and beverage, as well as health and wellness in an environment with a strong sense of community, will define the new retail where emerging consumers demand quality expressed through sustainability, honesty and individuality.

We expect our office portfolio to be relatively stable. We will maintain our focus on growing a sustainable, community-based working environment, where a balanced lifestyle for tenants' workers is valued. We will also provide a more technology-friendly environment, with more opportunities for collaboration and experience sharing. Looking ahead, we will explore more aspects of the sharing economy, including an enhanced co-working community, as well as co-living arrangements.

For our two main business sectors, we need to bring new initiatives to the market with speed. We are keen to foster innovation within the commercial real estate sector and to implement disruptive technology while still leveraging our prime strengths to drive long-term growth. Going forward, we will be more digitalised and more data driven, but we will also ensure that technology is adopted at the consumer level to help customers interact with the brand.

Finally, as we illustrated in our last annual report, Hysan always strives to innovate and curate relevant content for the Lee Gardens community. Throughout 2017, we have continued to introduce small-scale but significant improvements, such as supporting Lee Gardens Association's Egglette and Ice-Cream festivals, as well as providing the setting for Cathay Pacific/HSBC's Rugby Sevens Fan Walk. The year-end recreation of Lee Gardens Hotel's Yum Sing Bar also proved to be a nostalgia-filled success. We will continue to explore short and longer-term ways to enhance the Lee Gardens area in which a broad leafy avenue, quirky side streets, state-of-the-art high-rise buildings, heritage low-rise, eclectic businesses, as well as workers and visitors fuse together to form a unique community.

Business Performance

The Group saw a slight turnover increase of 0.4% to HK\$3,548 million, from HK\$3,535 million in 2016. At year-end 2017, our retail portfolio occupancy was 97%. Occupancy of our office portfolio was 96%, and the residential portfolio was 75%. The retail and office occupancy percentages did not include Lee Garden Three which was completed in Mid-December 2017.

Recurring Underlying Profit, our key core leasing business performance indicator, experienced a slight decline of 0.8% to HK\$2,349 million (2016: HK\$2,369 million). This reflected the small growth in turnover in light of the market conditions, as well as the increase in expenses for Lee Garden Three after its completion. Basic earnings per share based on Recurring Underlying Profit were HK224.68 cents (2016: HK226.29 cents), down 0.7%.

Underlying Profit, which excludes unrealised changes in fair value of investment properties, was HK\$2,491 million, increased by 5.1% from HK\$2,369 million in 2016. This principally reflected a one-off compensation of HK\$142 million (2016: nil) (net of taxation and non-controlling interests' shares) from a retail tenant during the year. Basic earnings per share based on Underlying Profit correspondingly rose to HK238.26 cents (2016: HK226.29 cents), up 5.3%.

The Group's Reported Profit for 2017 was HK\$3,636 million (2016: HK\$1,218 million). This reflected a fair value gain of HK\$853 million (2016: fair value loss of HK\$1,187 million) on the Group's investment properties' valuation. As at year-end 2017, the external valuation of the Group's investment property portfolio increased by 4.1% to HK\$72,470 million (2016: HK\$69,633 million). This reflected a combination of factors: a generally positive office rental outlook; a number of asset enhancement works completed, as well as a higher valuation for the completed Lee Garden Three and an improving retail outlook. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2016.

Shareholders' Funds increased by 3.6% to HK\$69,953 million (2016: HK\$67,490 million), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 17.1 times (2016: 20.5 times) and net debt to equity ratio of 5.0% (2016: 5.4%).

Capital Management

The Board of Directors (the “Board”) is pleased to declare a second interim dividend of HK111 cents per share (2016: HK109 cents). Together with the first interim dividend of HK26 cents per share (2016: HK26 cents), the total distribution is HK137 cents per share (2016: HK135 cents), representing a year-on-year increase of 1.5%. The dividend will be payable in cash.

Appreciation and Outlook

Although 2017 saw Hong Kong’s economy emerging from a difficult period, Hysan still had to navigate through significant changes within our fields of operation. Our management team and colleagues deserve full credit for developing and delivering many successful projects. I would like to take this opportunity to thank them for their hard work, and I would also like to thank our directors for their support and guidance.

The trend of global economic expansion is likely to continue in 2018, despite some geopolitical uncertainties, a potential further U.S. rate hikes, and the possibility of a slowdown in the Chinese economy. Hong Kong’s economy is expected to continue to be buoyed by growth in consumer spending.

Hysan has implemented a range of measures to tackle the retail and office structural changes head on. Lee Garden Three’s completion is adding greater impetus to the changes in both sectors of our commercial portfolio. We also have a comprehensive plan to further curate the Lee Gardens community with the support of our neighbourhood stakeholders. We look forward to another fruitful year ahead.

Lee Irene Yun-Lien

Chairman

Hong Kong, 28 February 2018

Business Performance

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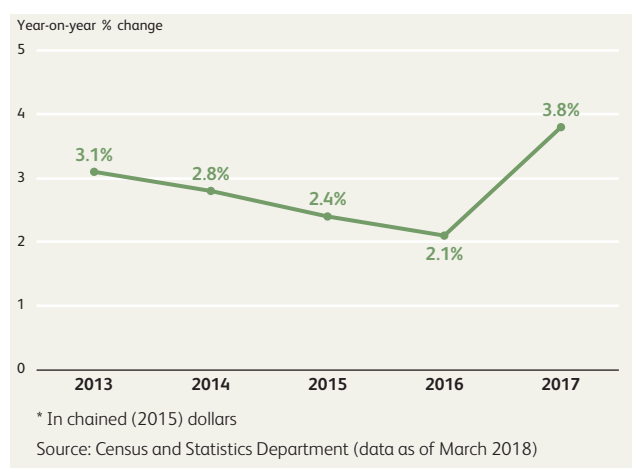


The Marketplace

Hong Kong economy

The Hong Kong economy grew by 3.8% year-on-year in 2017. Private consumption expenditure increased by 5.4% supported by favourable employment and earnings. Investment expenditure grew moderately by 4.2%. Exports of goods increased by 5.9% and exports of services rebounded by 3.5% mainly due to a broad-based global economic upturn.

Real Gross Domestic Product*



Retail

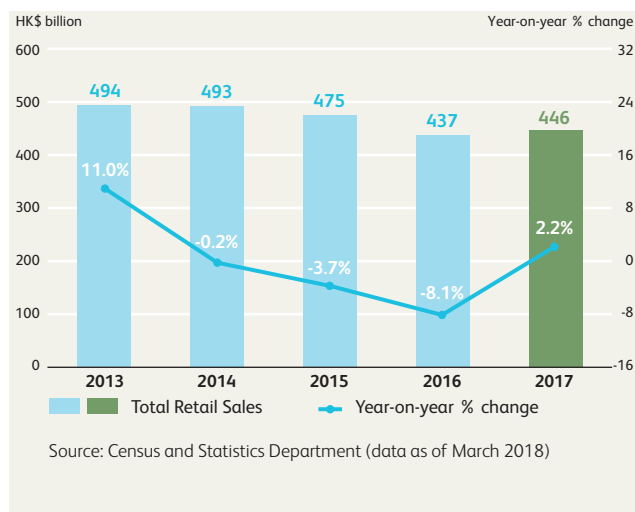
Benefiting from good consumer sentiment, retail sales recorded an annual increase of 2.2% as compared to the previous year. Key contributors were the medicines and cosmetics, and luxury products sectors.

A 3.9% increase in Mainland China visitors during the year was one of the core factors in the overall retail increase. Local consumers also contributed to the retail market upturn as shown by the notably increase in private consumption expenditure.

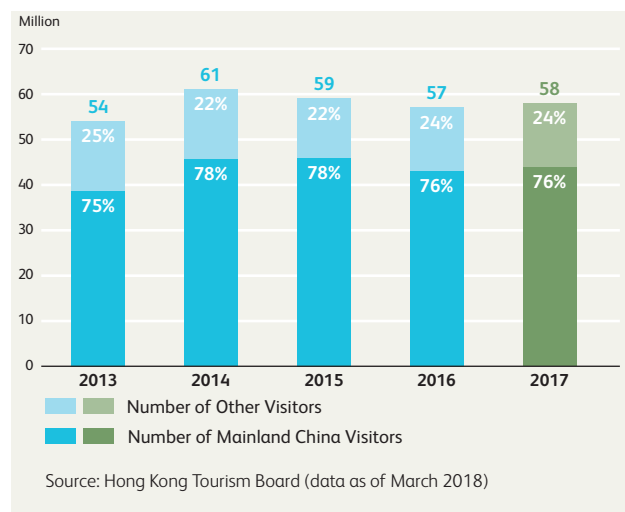
	Categories	2017 growth rate
Key dropping categories	Electrical goods and photographic equipment	- 9.0%
	Footwear, allied products and other clothing accessories	- 2.1%
Growing categories	Medicines and Cosmetics	+ 5.5%
	Jewellery, watches and clocks, and valuable gifts	+ 5.2%

Source: Census and Statistics Department (data as of March 2018)

Hong Kong Total Retail Sales

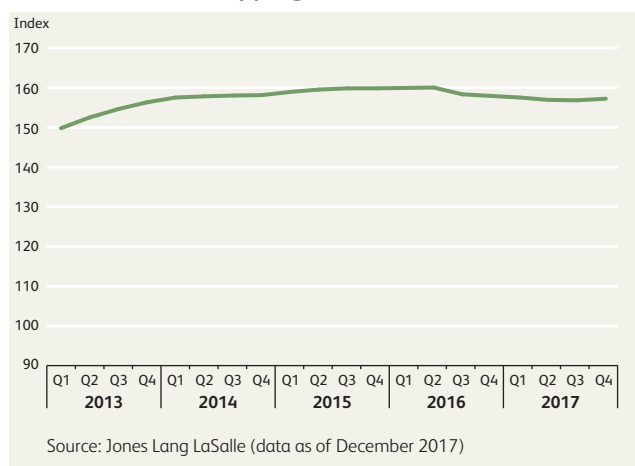


Total Number of Visitors



According to Jones Lang LaSalle, rents for retail premises in prime shopping centers picked up marginally in the fourth quarter but still dropped mildly by 0.4% for the full year in 2017.

Premium Prime Shopping Centre Rental Index (2009 Q4=100)



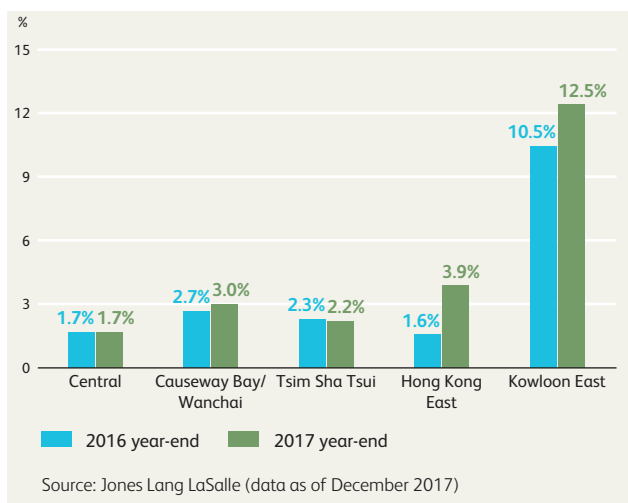
The Marketplace

Office

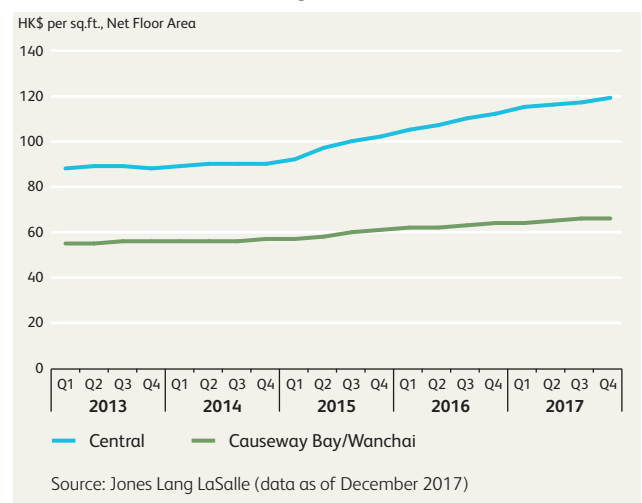
Rents in the Grade “A” office market recorded good growth in general. The primary growth driver was the demand from Mainland China firms, and co-working operators. Mainland China companies took up about 48% of new lettings in Central during the year. However, some sub-markets such as Kowloon East, experienced a decline due to mounting supply pressure.

As at the end of December 2017, Kowloon East had a double digit vacancy while Central’s vacancy rate remained low at 1.7%. The strong demand in Central pushed rentals upwards to \$118.6 per sq. feet in December 2017.

Grade “A” Office Vacancy Rate in 2016 and 2017



Grade “A” Office Monthly Net Effective Rental Value

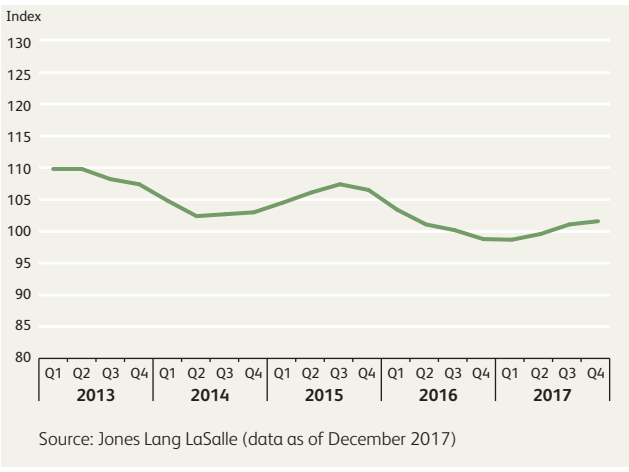


Luxury Residential

Luxury residential rents began to pick up in 2017. Positive business outlook has supported leasing demand.

According to Jones Lang LaSalle, luxury residential rents increased 2.9% for the full year in 2017.

Luxury Residential Rental Index (2009 Q4=100)



Management's Discussion and Analysis

Hysan's portfolio of retail, office and residential investment properties has a total gross floor area of approximately 4.1 million square feet. This does not include the newly completed Lee Garden Three mixed-use commercial building, which has a gross floor area of around 467,000 square feet.

Strategy

The Group is committed to seeking a steady growth of return for our shareholders. The vast majority of our properties are located in Hong Kong's Causeway Bay, and the area will remain our home base and the core of our focus. The Group also seeks investment opportunities beyond our core. One recent project is a joint-venture residential project in Hong Kong's Tai Po.

We enhance the value of our properties through refurbishing, repositioning, redevelopment and other means of portfolio management. We actively seek new investment opportunities with an aim to enhance long-term value for shareholders. We also strive to curate a unique community in the Lee Gardens area of Causeway Bay for our tenants and other stakeholders. With sound financial management underpinning everything we do, we execute our work through a dedicated team of professionals well versed in different aspects of the real estate industry.

Review of Results

The Group saw a slight turnover increase of 0.4% to HK\$3,548 million, from HK\$3,535 million in 2016.

The turnover of each sector is shown as below:

	2017 HK\$ million	2016 HK\$ million	Change %
Retail sector	1,925	1,969	-2.2
Office sector	1,359	1,292	+5.2
Residential sector	264	274	-3.6
	3,548	3,535	+0.4

Recurring Underlying Profit, our key core leasing business performance indicator, experienced a slight decline of 0.8% to HK\$2,349 million (2016: HK\$2,369 million). This reflected the small growth in turnover as a result of the market conditions, as well as the increase in expenses for Lee Garden Three after its completion. Basic earnings per share based on Recurring Underlying Profit were HK224.68 cents (2016: HK226.29 cents), down 0.7%.

Underlying Profit, which excludes unrealised changes in fair value of investment properties, was HK\$2,491 million, increased by 5.1% from HK\$2,369 million in 2016. This principally reflected a one-off compensation of HK\$142 million (2016: nil) (net of taxation and non-controlling interests' shares) from a retail tenant during the year. Basic earnings per share based on Underlying Profit correspondingly rose to HK238.26 cents (2016: HK226.29 cents), up 5.3%.

The Group's Reported Profit for 2017 was HK\$3,636 million (2016: HK\$1,218 million). This reflected a fair value gain of HK\$853 million (2016: fair value loss of HK\$1,187 million) on the Group's investment properties' valuation. As at year-end 2017, the external valuation of the Group's investment property portfolio increased by 4.1% to HK\$72,470 million (2016: HK\$69,633 million). This reflected a combination of factors: a generally positive office rental outlook; a number of asset enhancement works completed; a higher valuation for the completed Lee Garden Three; and an improving retail outlook. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2016.

	2017 HK\$ million	2016 HK\$ million	Change %
Recurring Underlying Profit	2,349	2,369	-0.8
One-off early surrender compensation income (net of effect of taxation and non-controlling interests' shares)	142	–	n/m
Underlying Profit	2,491	2,369	+5.1
Fair value gain (loss) on investment properties located in			
– Hong Kong (net of effect of non-controlling interests' shares)	1,106	(1,157)	n/m
– Shanghai*	11	6	+83.3
Imputed interest income on interest-free loan to a joint venture	28	–	n/m
Reported Profit	3,636	1,218	n/m

* The investment properties are held by an associate of the Group.

n/m: not meaningful

Review of Operations

As at 31 December 2017, excluding the new Lee Garden Three, about 83% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay. The remaining 17% was represented by residential properties in the Mid-Levels.

In terms of turnover contributions by the different business portfolios, about 54% was attributable to retail, 38% to office and 8% to residential properties.



Management's Discussion and Analysis

KEY PERFORMANCE INDICATORS

The Group's turnover growth and occupancy rate are the key measurements used for assessment of our core leasing business performance. Cost effectiveness is assessed by the Group's management using the property expenses ratio (as a percentage of turnover).

Key Performance Indicators	Definition	Business Performance
Turnover Growth	Rental revenue in 2017 vs that in 2016	Retail: -2.2% (2016 vs 2015: +3.5%) Office: +5.2% (2016 vs 2015: +3.9%) Residential: -3.6% (2016 vs 2015: -3.9%)
Occupancy Rate**	Percentage of total area leased*/ total lettable area* of each portfolio at year end	Retail: 97% (2016: 99%) Office: 96% (2016: 96%) Residential: 75% (2016: 82%)
Property Expenses Ratio	Property expenses divided by turnover	12.7% (2016: 12.1%)

* Source of underlying data: Internal company data

** The retail and office occupancy percentages did not include Lee Garden Three which was completed in Mid-December 2017. This definition is applied to the whole "Management's Discussion and Analysis" section.

Note: No changes have been made to the source of data or calculation methods used compared to 2016.

RETAIL PORTFOLIO

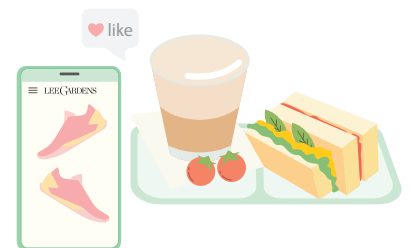
The Group's retail portfolio turnover saw a decline of 2.2% to HK\$1,925 million (2016: HK\$1,969 million), which included turnover rent of HK\$48 million (2016: HK\$46 million). With an ongoing tenant mix adjustment, some shop spaces experienced positive rental reversion while others saw negative reversion in rental renewals, reviews and new lettings.

The portfolio's occupancy was 97% as at 31 December 2017 (31 December 2016: 99%).

Foot traffic for Hysan's retail portfolio decreased by around 5% in 2017, as compared to 2016. This was due mainly to major renovation and fit out works for a number of new tenants. Some improvement in footfall was seen towards the end of the year.

The estimated overall tenant sales within the portfolio experienced a single-digit percentage increase, as compared to 2016. This compared well to Hong Kong's overall retail sales in 2017.

Newly joined tenants in 2017 included Brunello Cucinelli, Zeiss Vision Center by Puyi Optical, Cha Ling and i.t. blue block. The latter in particular reinforced Hysan Place's position as Hong Kong's top fashionable shopping venue. Our portfolio also welcomed a number of new food and beverage establishments to further add to our reputation as a foodie destination. BRICK LANE, The PHO, and IPPUDO were among the eateries that joined, as well as FLIPPER'S, the popular pancake restaurant operating out of i.t. blue block. In early 2018, we welcomed 10 Shanghai and Sushi Ta-ke.



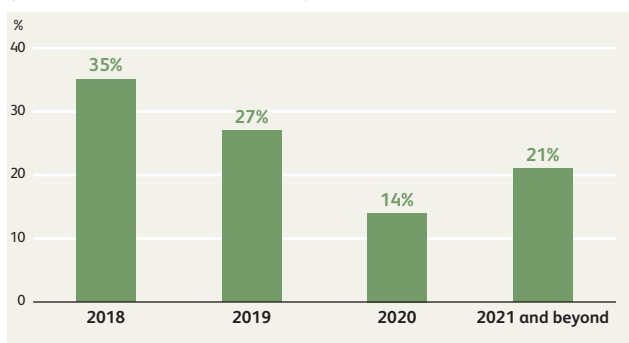
2017 saw a number of show-stopping events taking place at Hysan's portfolio. The Cathay Pacific/HSBC Rugby Sevens Fan Walk in April attracted much attention both from the sport's hardcore fans who travelled to Hong Kong from different parts of the world, as well as from casual local visitors who previously may have had less exposure to this international sporting event. The dining and shopping promotions that complemented the weekend event brought customers and sales to the restaurants and shops within the Hysan portfolio. The weekend's street carnival on Hysan Avenue and Yun Ping Road established Lee Gardens as a true destination in the hearts and minds of thousands of international visitors.

The summer's programme in cooperation with eslite was another highlight attracting considerable attention. The lifestyle theme permeated the month-long event with books, a selection of coffees and even cassette tapes playing major roles. The winter holiday period saw Christmas markets in the Lee Gardens area, with a number of stalls hosted by renowned celebrities. Giant baubles, adopted by charity donors, adorned the malls. Both these events successfully reflected our commitment to providing interesting content and entertainment for all those who come and shop in our spaces.

We made substantial use of social media to help promote our events and activities, as well as our range of special offers provided throughout the year. On the topic of promotions, we strengthened our cooperation with a number of Mainland Chinese social media organisations to push our messages into the Mainland market. We also worked closely on promotional projects with banks and credit card operators that are popular with Mainland visitors.

2017 was a successful year for our two loyalty programmes: the VIP Club Avenue, and the general shoppers' Lee Gardens Plus. For Club Avenue, the number of members saw a low double-digit percentage growth, as compared to 2016, while sales also experienced a similar level of percentage growth. Tenant referral and collaboration were key to our success. For Lee Gardens Plus, the number of members grew in multiples. More attractive promotional offers and a simplified registration process helped to ensure significant membership growth.

Retail Lease Expiry Profile by Area Occupied (As at 31 December 2017)



OFFICE PORTFOLIO

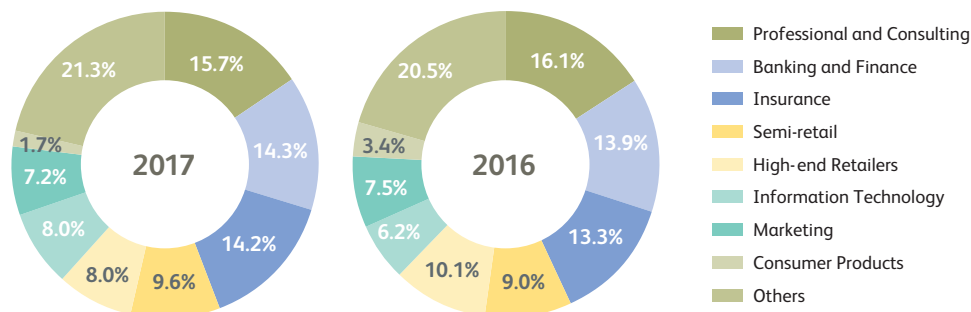
The Group's office portfolio turnover increased by 5.2% to HK\$1,359 million (2016: HK\$1,292 million). The results reflected overall positive rental reversion on renewals, reviews and new lettings.

The office portfolio occupancy was 96% as at 31 December 2017 (31 December 2016: 96%).

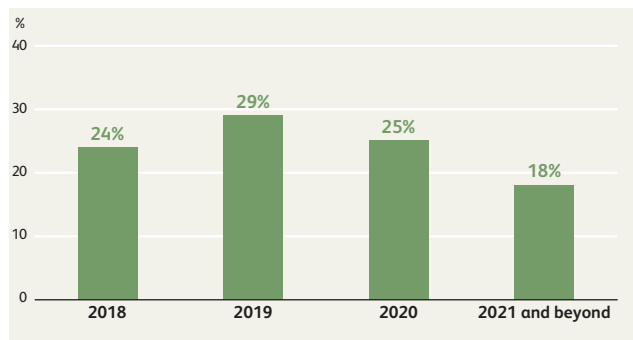
Causeway Bay remained one of the most sought after areas for multinational and local corporations seeking prestige, convenience and good value for money. Lee Garden Three's pre-leasing activities slowed down somewhat in the second half of 2017, but close to 55% of its office space was committed for rental. Kim Eng Securities (HK) Ltd, a subsidiary of Maybank Group was the building's first moved-in tenant, while Spaces, a renowned full service co-working environment provider, was among the in-coming tenants. Both workers and visitors to the building would find it easy to park, since more than 200 spaces were added upon the completion of the building.

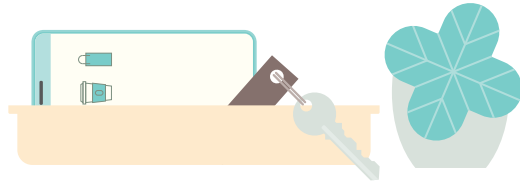
Professional and Consulting remained the sector taking up the most space in Hysan's office portfolio. Banking and Finance, Insurance and Semi-Retail took up the second, third and fourth spots. These four sectors combined to occupy around 50% of our lettable floor area. Reflecting a diverse tenant mix, no category took up more than 20% of the total lettable area.

Office Tenant Profile by Area Occupied as at Year-end



Office Lease Expiry Profile by Area Occupied (As at 31 December 2017)





RESIDENTIAL PORTFOLIO

Hysan's residential portfolio, comprising mainly the units in Kennedy Road's Bamboo Grove, experienced a 3.6% turnover decrease to HK\$264 million (2016: HK\$274 million). The sector's occupancy was 75% as at 31 December 2017 (31 December 2016: 82%). The decline in occupancy was due to more units being renovated, as well as changes in demand by expatriates.

The rental reversion was overall positive on renewals, reviews and new lettings.

LEE GARDEN THREE PROJECT

The construction project was completed in December 2017, upon the issuance of the Occupation Permit. Lee Garden Three is a commercial building that promotes environmental friendliness and work-life balance with a retail podium, a Roof Top Garden, a Sky Garden with a 100 metre long running track, as well as a range of dining hotspots, all complementing the lifestyle elements in the Lee Gardens portfolio. The first office tenants have already moved in, and three levels of parking spaces are already open for use by tenants and the visiting public.

TAI PO LO FAI ROAD PROJECT

Design development of our low density residential development project at Tai Po is making good progress. Various statutory submissions are ongoing. Site formation and foundation works will commence in Q2 2018.



Management's Discussion and Analysis

Financial Review

A review of the Group's results and operations is featured in the preceding sections.

This section deals with other significant financial matters.

OPERATING COSTS

The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs largely representing payroll related costs of management and head office staff).

Property expenses increased by 4.9% to HK\$449 million (2016: HK\$428 million), mainly due to higher marketing expenses to enhance shopping attractions; increased life-cycle repairs and maintenance costs; agency fees to external leasing agents for Lee Garden Three; and offsetting lower utility costs as a result of tariff reduction. As the increase in property expenses is more than the relevant increase in turnover, property expenses to turnover ratio thus increased slightly from 12.1% to 12.7% as compared to 2016.

Administrative expenses increased by 12.8% to HK\$247 million (2016: HK\$219 million). This reflected human resources upskilling and the filling of previously vacant positions.

FINANCE COSTS

Finance costs, after capitalisation of HK\$51 million (2016: HK\$14 million) interest expenses and related borrowing costs referable to the construction costs of Lee Garden Three, recorded a decrease of 11.2% to HK\$158 million (2016: HK\$178 million). If the capitalised interest expenses and related borrowing costs were included, the Group's finance costs in 2017 would have been HK\$209 million, an increase of 8.9% from HK\$192 million in 2016. The increase was attributable to the higher average debt level in 2017 as compared to 2016 after debt repayments in both years. The Group's average cost of finance in 2017 was 3.4%, lower than the 3.8% reported for 2016 due to the increase in interest expenses, which were relatively lower than the percentage increase in average debt level during 2017.

Further discussion of the Group's treasury policy, including debt and interest rate management, is set out in the "Treasury Policy" section.

REVALUATION OF INVESTMENT PROPERTIES

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$853 million (2016: fair value loss of HK\$1,187 million) was recognised in the Group's consolidated statement of profit or loss for the year. This figure reflected a combination of factors: a generally positive office rental outlook; a number of asset enhancement works completed; as well as a higher valuation for the completed Lee Garden Three and an improving retail outlook.

As at 31 December 2017, the Group's investment property portfolio (including property under redevelopment) was HK\$72,470 million, an increase of 4.1% from HK\$69,633 million as at 31 December 2016. This valuation was carried out by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2016.

The following shows the property valuation of each portfolio at year-end.

	2017 HK\$ million	2016 HK\$ million	Change %
Retail	33,188	33,082	+0.3
Office	31,325	23,832	+31.4
Residential	7,957	7,859	+1.2
Lee Garden Three*	–	4,860	n/m
	72,470	69,633	+4.1

* Lee Garden Three's construction works were completed during the year ended 31 December 2017

n/m: not meaningful

INVESTMENT IN AN ASSOCIATE

The Group's share of results of an associate decreased to HK\$220 million (2016: HK\$237 million). This decline mainly reflected the impact from renovation of the Shanghai Grand Gateway project, of which the Group owns 24.7%. As at 31 December 2017, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, amounted to HK\$11 million (2016: HK\$6 million).

OTHER INVESTMENTS

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities. This measure helped to preserve the Group's liquidity and to enhance interest yields.

Excluding recognition of imputed interest income on the non-current interest-free loan to a joint venture company for residential sites' development in Tai Po of HK\$28 million (2016: nil), like-for-like interest income decreased by 18.0% to HK\$41 million (2016: HK\$50 million). This figure mainly reflected a lower average investment amount after the payment of the construction costs of Lee Garden Three.

Management's Discussion and Analysis

Cash Flow

Cash flow of the Group during the year is summarised below.

	2017 HK\$ million	2016 HK\$ million	Change %
Operating cash inflow	2,900	3,326	-12.8
Investments	1,020	1,331	-23.4
Net repayment from (advance to) a joint venture company	935	(2,036)	n/m
Financing	(151)	1,427	n/m
Interest and taxation	(566)	(523)	+8.2
Dividends paid and proceeds on exercise of options	(1,524)	(1,500)	+1.6
Capital expenditure	(1,947)	(847)	n/m
Consideration for shares repurchased	–	(395)	n/m
Net cash inflow	667	783	-14.8

n/m: not meaningful

The Group's net operating cash inflow was HK\$2,900 million (2016: HK\$3,326 million), HK\$426 million lower than in 2016, reflecting a one-off compensation received from a tenant during 2016.

Net cash from investments was HK\$1,020 million (2016: HK\$1,331 million), mainly attributable to reduction in investments in time deposits with longer tenors.

Net repayment from a joint venture company was HK\$935 million after completion of project financing on land acquisition costs during the year. In 2016, cash in advance to a joint venture company was HK\$2,036 million for the payment of land acquisition costs.

Net cash used in financing was HK\$151 million after net repayment during the year. In 2016, net cash from financing was HK\$1,427 million. This principally reflected new bank loans of HK\$1,680 million for the payment of land acquisition costs, which offset the repayment of a HK\$250 million bank loan during 2016.

The Group paid dividends of HK\$1,411 million (2016: HK\$1,394 million), being the 2016 second interim dividend of HK109 cents per share (2015: HK107 cents) and the 2017 first interim dividend of HK26 cents (2016: HK26 cents) per share.

The Group repurchased 12.59 million of its own shares in 2016, at an aggregate consideration of HK\$395 million. The average purchase price per share was HK\$31.24.

CAPITAL EXPENDITURE AND MANAGEMENT

The Group is committed to enhancing the asset value of our investment property portfolio through selective asset enhancement and redevelopment. The Group has also established a portfolio-wide whole-life cycle maintenance programme as part of our ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK\$1,947 million (2016: HK\$847 million), including the payment of the construction costs of Lee Garden Three.

Treasury Policy

MARKET HIGHLIGHTS

2017 was a year of global growth recovery, driven by synchronised global expansion. On the back of the falling U.S. unemployment rate, improving GDP growth and low inflation, the Federal Reserve raised the federal funds rate by 25 basis points on three occasions in 2017. The Federal Reserve has further stated that it will continue to withdraw liquidity by gradually increasing the federal funds rate and tapering its balance sheet in the coming period. Under the currency board system, Hong Kong interest rates rise in line with the Federal Reserve's progressive normalisation of monetary policy. HKD Hibor rates rose during the last quarter of 2017 but the differential with the U.S. Libor rates has remained wide as a result of rising U.S. interest rates and ample liquidity in Hong Kong. Asia also performed well in 2017 owing to benign U.S. inflation and the strength of commodity prices. China also witnessed robust growth in 2017. However, the rate of growth has slowed due to the tightening of financial and environmental regulations.

Although global economic growth continues, concerns remain for the year ahead. Geopolitical events such as those related to North Korea could impact sentiment and destabilise the market. A more marked slowdown in the growth of China's economy may also impact the rest of the world. It is therefore important for the Group to continue our policy of prudent financial management.

CAPITAL STRUCTURE MANAGEMENT

Despite the interest rate tightening in the U.S., there was ample liquidity in the banking system of Hong Kong in 2017. The credit margin of bank loans for companies with investment grade credit ratings saw a modest decline. The 3-month HKD Hibor increased from around 1% at the end of 2016 to around 1.3% at the end of 2017.

During 2017, the Group arranged HK\$1,500 million five-year bank facilities on competitive terms. The outstanding gross debt¹ of the Group was HK\$6,176 million (2016: HK\$6,305 million) at year-end 2017, a decrease of HK\$129 million compared with 2016. All the outstanding borrowings are on an unsecured basis.

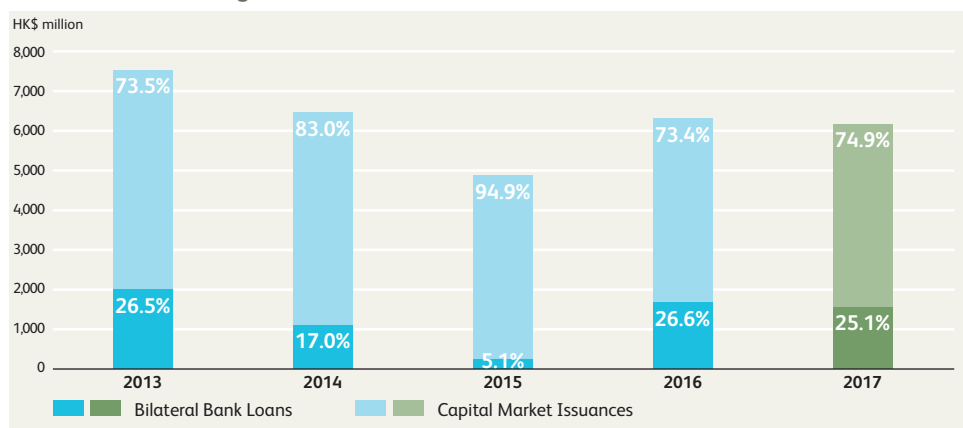
The Group always strives to lower the borrowing margin, to diversify funding sources and to maintain a suitable maturity profile relative to the overall use of funds. Because of the repayment of bank loans in 2017, debts sourced from the capital market increased to 74.9% (2016: 73.4%) at year-end. The Group continued to maintain long-term relationships with a number of local and overseas banks in order to diversify funding sources. At year-end 2017, seven local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

¹ The gross debt represents the contractual principal payment obligations at 31 December 2017. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2017, the book value of the outstanding debt of the Group was HK\$6,185 million (31 December 2016: HK\$6,293 million).

Management's Discussion and Analysis

The following graph shows the percentages of total outstanding gross debts sourced from banks and the debt capital markets in the past five years.

Sources of Financing at Year-end



The Group also strives to maintain an appropriate debt maturity profile. As at 31 December 2017, the average maturity of the debt portfolio was about 4.3 years (2016: 4.3 years), of which about HK\$150 million or 2.4% of the outstanding gross debt will be due in less than one year. Given that the Group had cash and bank deposits of HK\$2,662 million, the Group is able to meet the debt repayment in 2018 without much refinancing pressure.

The graph below shows the debt maturity profile of the Group at year-end 2017 and 2016.

Debt Maturity Profile at 2016 and 2017 Year-end

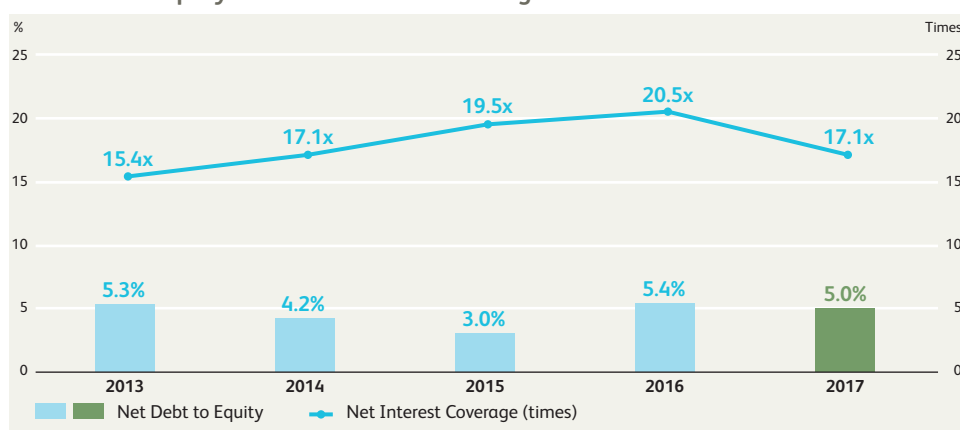


Reflecting the stable recurring cash flows from our business, the Group maintained investment-grade credit ratings of A3 as rated by Moody's and BBB+ as rated by Standard and Poor's.

The Group's gearing ratio, as measured by Net Debt to Equity ratio¹, decreased from 5.4% at year-end of 2016 to 5.0% at year-end of 2017, mainly due to debt repayment in 2017. The Group's Net Interest Coverage² slightly reduced to 17.1 times for 2017 (2016: 20.5 times) mainly due to the drawdown of bank loans during 2016. The low gearing and strong ability to meet interest payments reflected the Group's resilience and capability to raise further debt if necessary.

The graph below shows the level of leverage and our ability to meet interest payment obligations in the past five years.

Net Debt to Equity and Net Interest Coverage at Year-end



LIQUIDITY MANAGEMENT

As at 31 December 2017, the Group had cash and bank deposits totalling about HK\$2,662 million (2016: HK\$2,630 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. In order to preserve liquidity and enhance interest yields, the Group invested HK\$737 million (2016: HK\$1,155 million) in debt securities.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounted to HK\$950 million at year-end 2017 (2016: HK\$500 million), essentially allowing the Group to obtain additional liquidity as the need arises.

The fixed debt ratio increased to 74.9% at year-end 2017 from 73.4% at year-end 2016. As the U.S. has entered the interest rate normalisation cycle, the Group believes that interest rates will continue to rise in the coming years. We expect that the current fixed debt ratio will allow the Group to weather the risk of an interest rate hike cycle.

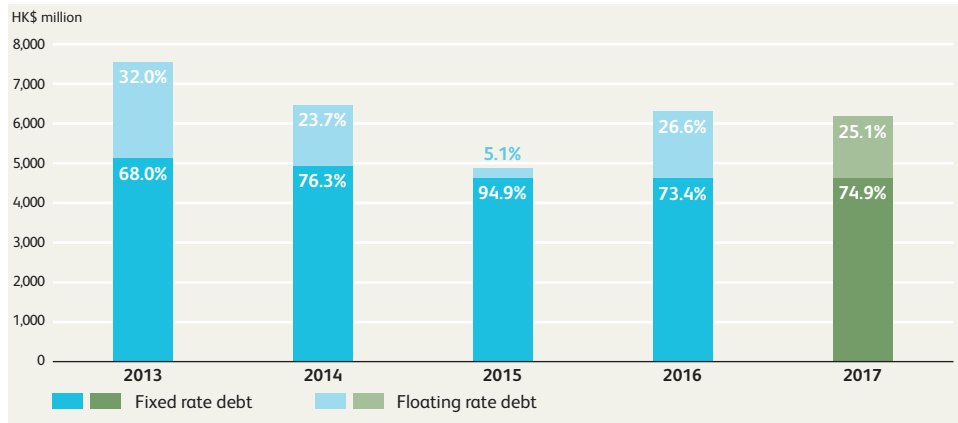
¹ Net Debt to Equity is defined as borrowings less time deposits, cash and bank balances divided by shareholders' funds.

² Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expenses.

Management's Discussion and Analysis

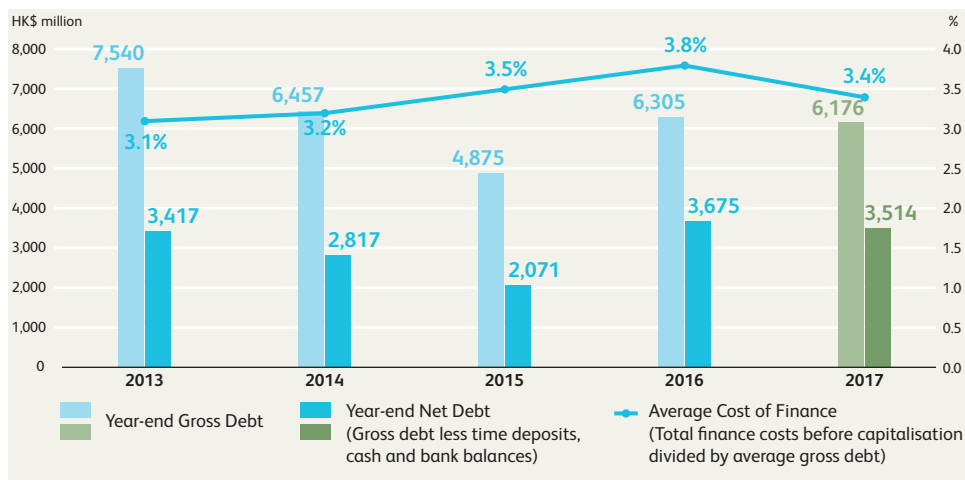
The diagram below shows the fixed rate debt and floating rate debt portions in the past five years.

Fixed Rate Debt and Floating Rate Debt Portions



The diagram below shows the Group's debt levels and average cost of finance in the past five years.

Debt Levels and Average Costs of Finance



FOREIGN EXCHANGE MANAGEMENT

The Group aims to have minimal mismatches in currency and does not speculate in currency movements for debt management. With the exception US\$300 million fixed rate notes, which have been hedged by an appropriate hedging instrument, all of the Group's borrowings were denominated in Hong Kong dollars. For the US\$300 million fixed rate notes issued in January 2013, a hedge was entered into to effectively convert the borrowing into Hong Kong dollars.

On the investment side, as at 31 December 2017, the Group's outstanding foreign currency balances in cash, time deposits and debt securities amounted to US\$128 million (2016: US\$180 million), of which US\$70 million (2016: US\$98 million) were hedged by foreign exchange forward contracts.

Other foreign exchange exposure mainly relates to investments in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK\$3,779 million (2016: HK\$3,497 million) or 4.6% (2016: 4.4%) of total assets.

USE OF DERIVATIVES

As at 31 December 2017, outstanding derivatives were mainly related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or to adjust the appropriate risk profile of the Group's treasury assets and liabilities.

Before entering into any hedging transaction, the Group will ensure that its counterparty possesses strong investment-grade ratings to control credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty, which basically reflects the credit quality of the counterparty.

Risk Management and Internal Control Report

Responsibility

Responsibility for risk management is shared among the Board of Directors and the management of the Group. The Board has the overall responsibility of reviewing and maintaining sound and effective risk management and internal control systems. Management's role is to design and implement these systems, and report to the Board and Audit Committee on the risks identified and how they are managed which are essential for the Group to achieve its business objectives.

Our Risk Management and Internal Control Framework

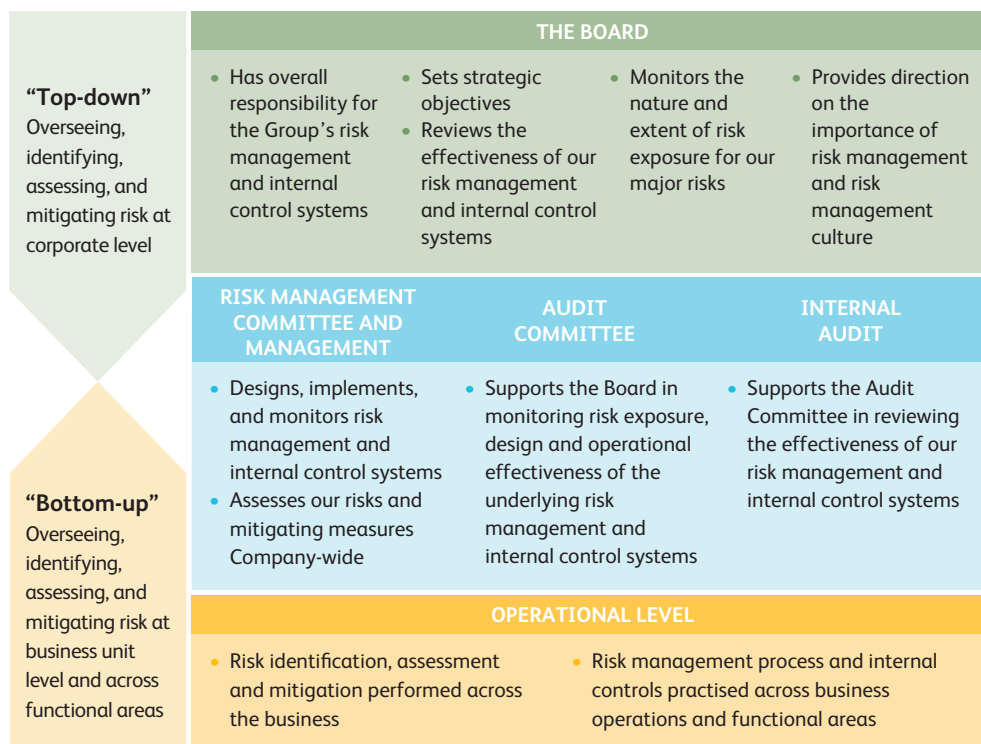
The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management, and the internal control systems. Acting on behalf of the Board, it oversees the following process on a regular basis:

- (i) Reviewing the principal business risks and control measures in order to mitigate, reduce or transfer such risks, the strengths and weaknesses of the overall risk management and internal control systems, and action plans to address the weaknesses or improve the assessment process;
- (ii) Reviewing the business process and operations reported by Internal Audit, including action plans to address the identified control weaknesses, as well as status updates and monitoring the implementation of audit recommendations; and
- (iii) Reporting by the external auditor of any control issues identified in the course of their work and discussion with the external auditor of the scope of their respective review and findings.

The Audit Committee will then report its findings to the Board, which then consider these findings in forming its own view on the effectiveness of the Group's risk management and internal control systems.

Please also see the "Audit Committee Report" from pages 86 to 89 regarding the Committee's detailed review work, including the forms of assurance received from management, the external auditor and internal auditor.

Hysan’s Top-Down/Bottom-Up Risk Management Framework



2017 Review of Risk Management and Internal Control Effectiveness

In respect of the year ended 31 December 2017, the Board, with confirmation from the Chief Operating Officer, Chief Financial Officer, Head of Internal Audit and Company Secretary, considered the risk management and internal control systems to be effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, internal audit, risk management and internal controls functions of the Group were identified. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

During the review, the Board also considered the resources, qualifications/experience of staff of the Group’s internal audit, accounting and financial reporting functions and their training and budgets were adequate.

Our Risk Management and Internal Control Model

Our risk management and internal control model is based on that of the Committee of Sponsoring Organisations of the U.S. Treadway Commission (“COSO”) for internal control, but with due consideration given to our organisational structure and business nature.

Risk Management and Internal Control Report

The COSO model has five components and how the model fit in to our operational and control environment is described as follows:

- **Control Environment** – this sets the tone for risk management and internal control. As Hysan is a tightly-knit organisation, the actions of management and its commitment to effective governance are transparent to all.

We have a strong tradition of good corporate governance and a corporate culture based on sound business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). In 2016, we adopted a separate Whistleblowing Policy, under which whistle blowers can raise concerns to a designated independent third party who will report to the Audit Committee. Our overall aim is to build risk awareness and control responsibility into our culture, which are the foundation of our risk management and internal control systems.

- **Risk Assessment** – we continue to improve our risk management process and the quality of information generated, while maintaining a simple and practical approach. Instead of setting up a separate risk management department, we seek to embed risk management into our operations (retail, office, residential, property management & technical services, projects, marketing and development & investment) and functional areas (including finance, human resources, IT, legal, secretarial and corporate communications).

On an annual basis, department heads review and update their risk registers, providing assurances that controls are both embedded and effective.

Management is part of a risk management committee (consists of Executive Director(s), Chief Operating Officer, Chief Financial Officer, Head of Legal and Head of Internal Audit), which sets relevant policies and monitors potential weaknesses and action items regularly. This committee is also responsible for identifying and assessing risks of a more macro and strategic nature, including emerging risks.

This top-down approach is complemented by a bottom-up approach in which operating unit heads identify operational risks. Together, these determine the Group's major risks. Discussion sessions with all department heads further enhance the participatory aspect of the overall risk assessment process.

- **Control Activities and Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews, segregation of duties, and physical controls. These control policies are now formalised as written policies and procedures, with defined limits of delegated authority and segregated duties and controls. A greater use of automation (information processing) is also being implemented.

The annual budgeting and planning process, one of our key control activities, has been refined to take into consideration risk factors. In preparing their respective plans, all operating units are required to identify material risks that may have an impact on the achievement of their business objectives. Action items to mitigate identified risks are developed for implementation as well as for finalising the budget and business objectives. Variance analyses are regularly performed and reported to management and the Board, which help to identify deficiencies for timely remedial actions to be taken.

Another significant control activity is the monitoring of project expenditures, as they are a particularly capital-intensive aspect of our property business. For each project, a detailed analysis of expected risks and returns is submitted to the operating unit heads, Chief Operating Officer, Chief Financial Officer, Executive Director(s) or the Board for approval. Criteria used to assess financial feasibility are generally based on net present value, payback period and internal rate of return from projected cash flow.

Management also conducts an internal control self-assessment annually. All department/unit heads must complete a relevant control self-assessment questionnaire and confirm with management that appropriate internal control policies and procedures have been established and properly complied with.

- **Monitoring Activities** – the Board and Audit Committee oversee the control process, assisted by our Internal Audit team. Management provides update reports to the Audit Committee on major risks and appropriate mitigating measures. Among the three Audit Committee meetings held annually, one is substantially given over to the risk management and internal control systems.

Strengthening our Underlying Systems

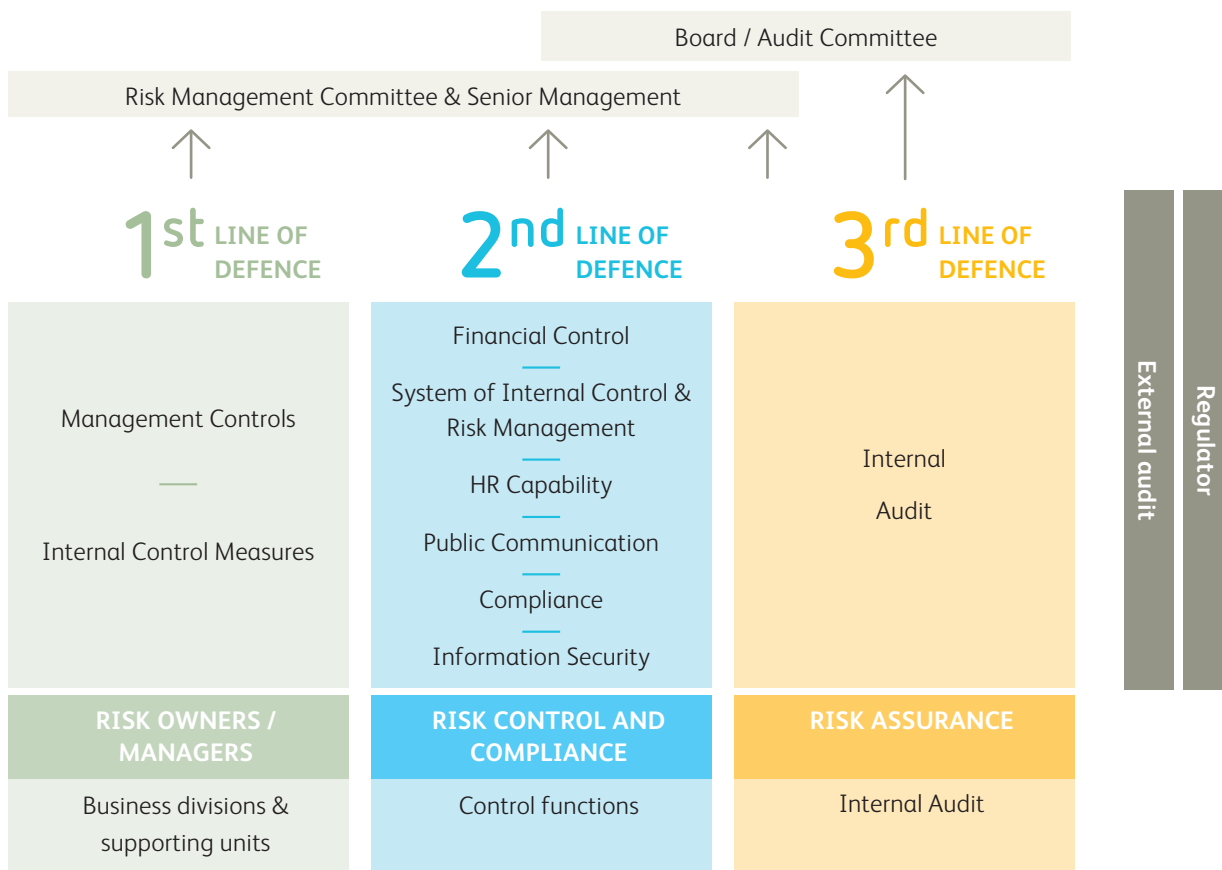
Since 2012, we have been progressively making improvements to our risk management and internal control systems. The initial phase focused on adopting a more risk-based — rather than process-based — approach to risk identification and assessment. This new approach enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives. Management reporting to the Audit Committee has also been enhanced, including the presentation of special reports on selected risk topics.

Our goal is to further integrate risk management and internal control into our business processes, including annual budgeting and planning. In December 2013, we revised the COSO framework to adopt a holistic approach to risk management, taking into consideration the Company's circumstances, including its ongoing risk management and internal control improvement plan as well as strategic initiatives such as corporate social responsibility. Ultimately, our objective is to make risk management a "living" process that is practised on a day-to-day basis by operating units.

Risk Management and Internal Control Report

HYSAN'S "THREE LINES OF DEFENCE" MODEL

Clear responsibilities and robust controls are vital to help manage risks and build trust. During the year 2017, we further reinforced our risk governance structure by adopting a "Three Lines of Defence" model to address how specific duties related to risk and control could be assigned and coordinated within the Group. It reinforces Hysan's risk management capabilities and compliance culture across all divisions and functions.



The model aims to reinforce Hysan's risk management capabilities and compliance culture throughout the Group. The responsibilities of each of the defence lines are as follows:

	Relevant units	Responsibilities
First Line	Business and supporting units	Ultimately accountable for all risks and controls in all business processes
Second Line	Corporate oversight and control functions	Responsible for the Group's policy framework and independent risk assessment
Third Line	Group internal audit	Responsible for ensuring independent and objective assurance on the effectiveness of risk management, internal controls and governance processes

HYSAN'S REGULATORY COMPLIANCE AND GOVERNANCE FRAMEWORK

The Board, supported by the Audit Committee, shall have overall regulatory compliance authority in all matters. During the year 2017, we have reviewed our regulatory compliance and governance framework taking the house of governance initiative. This forms a central part of our commitment to high standard of internal control governance.



Risk Management and Internal Control Report

OUR PAST EFFORTS IN ENHANCING THE INTERNAL CONTROL ENVIRONMENT AND ACTIVITIES

In addition to the above major enhancements during the year, the following are examples of the improvements we have made over the past few years to strengthen our risk management and internal control system:

Control Environment – policy of compliance	
<ul style="list-style-type: none"> Policy of compliance together with the compliance framework, key owners of compliance and a non-compliance checklist developed and enhanced. General Counsel of the Group presented the “Risk Management and Internal Control Framework” to the senior management and department heads. 	Ongoing review/ refinement of processes and structures to enhance compliance.
Risk Assessment – enhanced monitoring of “emerging risks”	
<ul style="list-style-type: none"> Strengthened the monitoring of material risks and “emerging risks”, i.e. new or evolving risks with potential significant impact, such as socio-political, economic or cybersecurity risks. <p>The Risk Management Committee plays a key role in identifying and tracking these risks, with top management leading discussions with all department heads.</p>	In the context of a fast-changing global and local environment, the monitoring of “emerging risks” will be a focus.
Control Activities – procedures for monitoring connected transactions	
<ul style="list-style-type: none"> Automation of exceptional report for monitoring connected transactions has been reviewed and enhanced. Connected transactions seminars had been conducted for all departments by General Counsel. 	Continual review and refinement of policies and procedures in the changing external and internal environment.
Control Activities – internal controls and policies	
<ul style="list-style-type: none"> Enhanced the procedure for handling and reporting a data breach (jointly developed by legal and IT departments) to support compliance of Personal Data (Privacy) Ordinance. A new procurement manual has been developed to tighten the internal controls, in particular, the setup of Tender Committee and the segregation of duties in handling technical and financial matters during tendering. Regular trainings and education across the Group during the year, including leasing, intellectual property, etc. 	Continual review and refinement of risk management and internal controls for handling concerns raised by whistle blowers.
Monitoring Activities – enhanced “management assurance” to Audit Committee and Board	
<ul style="list-style-type: none"> Enhanced management update reports to the Audit Committee and Board on major risks, including deep-dive reports on topics such as risk management in procurement and tender process. <p>To strengthen management’s “assurance” to the Audit Committee and Board, self-assessment questionnaires were rolled out across all departments. Department heads were required to review and certify the effectiveness of their departmental controls, including the identification of any control issues. This backs up management’s certification to the Audit Committee and Board.</p>	Facilitation and enhancement of the work of the Audit Committee and the Board in monitoring our risk exposure.

Our Risk Profile

Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of our major risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk	Risk change during 2017	Description of risk change
Impact of macroeconomic developments on:		
1. Office	↑	The office rental market on Hong Kong Island core area benefited from limited new supply and demand from Chinese institutions. However, due to global economic headwinds, there was a drop in the overall demand for office space across the market from multinational companies. Further, new supply from Hong Kong Island East and lower rent in the non-core business areas has driven cost-conscious tenants to move out of core areas. The rise of co-work concept is also a disruptor to traditional office leasing business.
2. Retail	↑	The retail market was challenging during 2017 as Hong Kong retail sales continue to record a decline during first half 2017, owing to a fall in tourist numbers as well as the downturn in local sentiment. However, the decline trend reversed in later 2017 with some growth in retail sales and tourist numbers. Although early sign of recovery is seen, retail tenants are still cautious in expanding their retail enterprises, shop numbers or footprints. Pressure on rental may continue for a while until a solid growth in retail sales and higher confidence is seen.
3. Residential	↑	Reduced demand from expatriates and tighter rent budget, higher market vacancy rates and keen competition continued to exert pressure on the luxury residential leasing market leading to higher vacancies at our property. > For more analysis and mitigating measures of the above risks, see "The Marketplace" & "Review of Operations"
4. Projects	↔	Lee Garden Three obtained its occupation permit in December 2017 with the first batch of tenants already moved-in. Other tenants are also preparing their premises for occupation. Together with HKR International Limited ("HKR"), the Group acquired two pieces of adjacent land in Tai Po with a view to develop into a low-rise residential development for sale. With the HKR's and Hysan's amplified expertise, we believe the project will be executed professionally and meet market demand. The project has been in good progress. > For more analysis and mitigating measures of the above risks, see "Review of Operations"
5. Human Resources	↑	The service industry in Hong Kong continues to experience widespread labour shortages and structural changes in workforce. We are facing increased competition for skilled personnel, especially experienced front-line staff, to provide good services and support the Group's growth strategy. > For more analysis and mitigating measures of the above risks, see "Corporate Responsibility Report 2017" separately available on Hysan's website: www.hysan.com.hk

Notes:

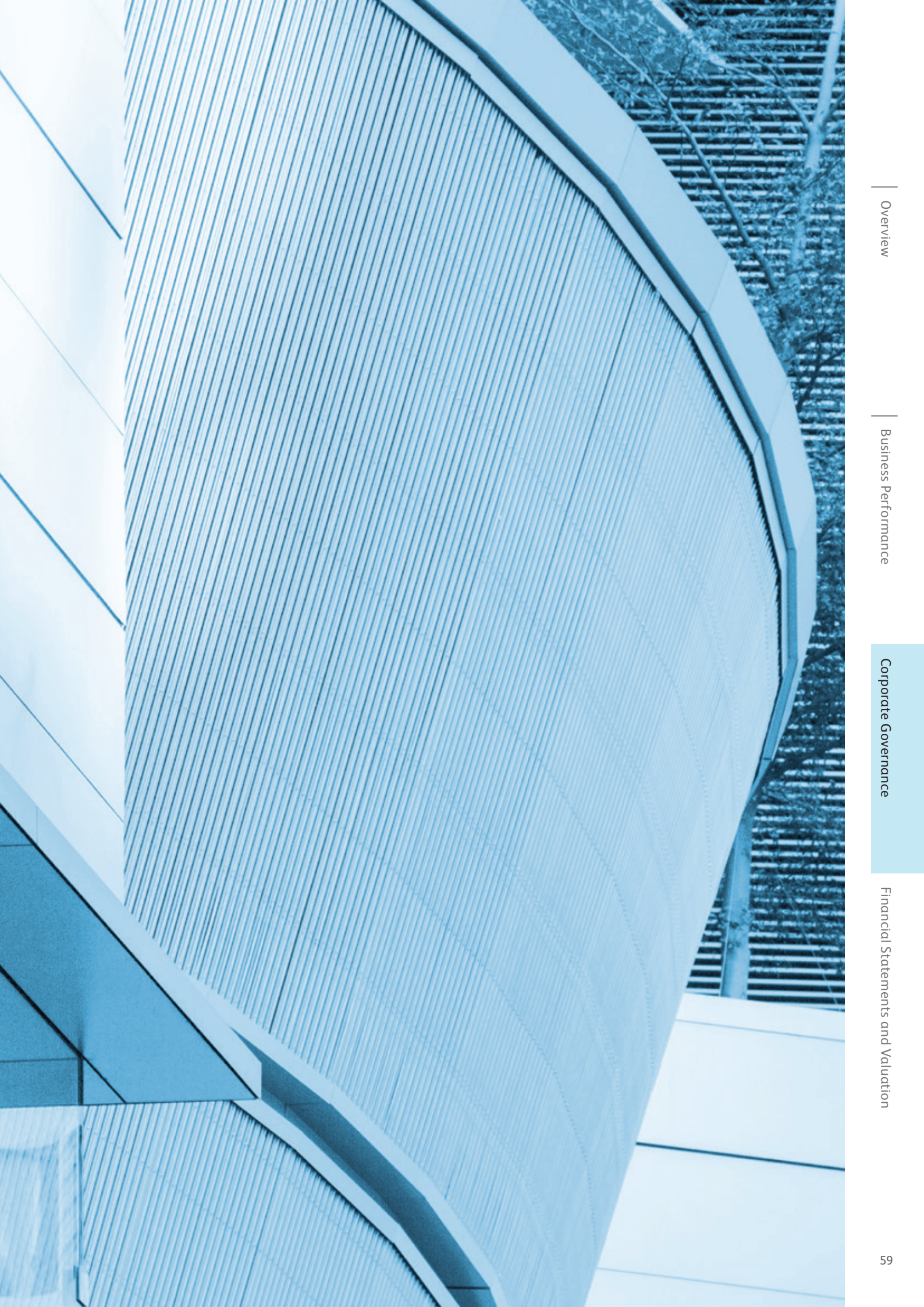
↑ where "inherent risks" (i.e. before taking into consideration mitigating activities) increased

↔ where "inherent risks" remained broadly the same

Corporate Governance

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Our People

Board of Directors

The Board is responsible for the stewardship of the Company, overseeing its conducts and affairs to create sustainable value for the benefit of its shareholders.

EXECUTIVE DIRECTOR



Lee Irene Yun-Lien
Chairman of the Board

Board appointment Ms. Lee was appointed a Non-Executive Director in March 2011, Non-Executive Chairman in May 2011, and executive Chairman in March 2012. She also serves as a director of certain subsidiaries of the Group. She is aged 64.

Competencies and experience Ms. Lee leads the Group in her executive Chairman role. Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, CLP Holdings Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee was an executive director of Citicorp Investment Bank Limited in New York, London and Sydney, and head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney. She was also the non-executive chairman of Keybridge Capital Limited (listed on the Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited and The Myer Family Company Pty Limited, an independent non-executive director of Noble Group Limited (listed on Singapore Exchange Limited), and a member of the Advisory Council of JP Morgan Australia. Ms. Lee was formerly a member of the Australian Government Takeovers Panel.

She is a member of the founding Lee family, sister of Mr. Lee Anthony Hsien Pin (Non-Executive Director) and his alternate on the Board.

Qualifications Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, United Kingdom.

Committees Ms. Lee is both the Chairman of the Nomination Committee and the Strategy Committee.

NON-EXECUTIVE DIRECTORS



Churchouse Frederick Peter
Independent Non-Executive
Director

Board appointment Mr. Churchouse was appointed an Independent Non-Executive Director in December 2012 and is aged 68.

Competencies and experience Mr. Churchouse has been involved in Asian securities and property investment markets for more than 30 years. Currently, he is a private investor including having his own private family office company, Portwood Company Ltd. He is an independent non-executive director of Longfor Properties Co. Ltd. He is also the publisher and author of *The Churchouse Letter*. In 2004, Mr. Churchouse set up an Asian investment fund under LIM Advisors. He acted as a director of LIM Advisors and as Responsible Officer until the end of 2009. Prior to this, Mr. Churchouse worked at Morgan Stanley as a managing director and advisory director from early 1988. He acted in a variety of roles, including head of regional research, regional strategist and head of regional property research. He was also a board member of Macquarie Retail Management (Asia) Limited.

Qualifications Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand.

Committee Mr. Churchouse is a member of the Audit Committee.



Fan Yan Hok Philip
Independent Non-Executive
Director

Board appointment Mr. Fan was appointed an Independent Non-Executive Director in January 2010. He is aged 68.

Competencies and experience Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited and PFC Device Inc. He was previously an independent non-executive director of Guolian Securities Co., Ltd. and an independent director of Goodman Group.

Qualifications Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from the Massachusetts Institute of Technology.

Committees Mr. Fan is the Chairman of the Remuneration Committee, and a member of the Audit Committee, the Nomination Committee and the Strategy Committee.

Our People

NON-EXECUTIVE DIRECTORS (CONTINUED)



Lau Lawrence Juen-Yee
Independent Non-Executive
Director

Board appointment Professor Lau was appointed an Independent Non-Executive Director in December 2014. He is aged 73.

Competencies and experience Professor Lau is currently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. He serves as Chairman of the Board of Directors for The Chinese University of Hong Kong (Shenzhen) Finance Institute, aka Shenzhen Finance Institute. He is also an independent non-executive director of AIA Group Limited, CNOOC Limited and Far EastOne Telecommunications Co., Ltd. (listed on the Taiwan Stock Exchange). Professor Lau joined the faculty of the Department of Economics at Stanford University in 1966, and had a long and distinguished career there. Upon his retirement in 2006, he became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, he served as Chairman of CIC International (Hong Kong) Co., Limited, a subsidiary of China Investment Corporation. Professor Lau was also a non-executive director of Semiconductor Manufacturing International Corporation. Professor Lau is a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, Chairman of its Governance Sub-committee and member of its Currency Board Sub-committee and Investment Sub-committee, Vice-Chairman of Our Hong Kong Foundation, a member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company and a member of Hong Kong Trade Development Council (HKTDC) Belt and Road Committee. He was appointed a Justice of the Peace in July 2007, awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region and served as a member of the 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Sub-committee.

Qualifications Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley.

Committee Professor Lau is a member of the Nomination Committee.



Poon Chung Yin Joseph
Independent Non-Executive
Director

Board appointment Mr. Poon was appointed an Independent Non-Executive Director in January 2010. He is aged 63.

Competencies and experience Mr. Poon is group managing director and deputy chief executive officer of a private company and an independent non-executive director of AAC Technologies Holdings Inc. He was formerly managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited, a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce.

Qualifications Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors.

Committees Mr. Poon is the Chairman of the Audit Committee, and a member of the Nomination Committee, the Remuneration Committee and the Strategy Committee.



Jebsen Hans Michael B.B.S.

**Non-Executive
Director**

Board appointment Mr. Jebsen was appointed a Non-Executive Director in 1994 and is aged 61.

Competencies and experience Mr. Jebsen is chairman of Jebsen and Company Limited as well as a director of other Jebsen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited.

Committee Mr. Jebsen is a member of the Strategy Committee.



Lee Chien

**Non-Executive
Director**

Board appointment Mr. Lee was appointed a Non-Executive Director in 1988 and is aged 64.

Competencies and experience Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and a number of private companies. He is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited. (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company.) Mr. Lee is a Council member of The Chinese University of Hong Kong and St. Paul's Co-educational College and a Trustee Emeritus of Stanford University. He is also a director of Stanford Health Care and CUHK Medical Centre.

Qualifications Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University.

Committees Mr. Lee is member of both the Nomination Committee and the Strategy Committee.



Lee Anthony Hsien Pin

**Non-Executive
Director**

Board appointment Mr. Lee was appointed a Non-Executive Director in 1994 and is aged 60.

Competencies and experience Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also a non-executive director of Television Broadcasts Limited. Mr. Lee is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited. (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company.) He is the brother of Ms. Lee Irene Yun-Lien, Chairman.

Qualifications Mr. Lee received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong.

Committee Mr. Lee is a member of the Audit Committee.

Our People

NON-EXECUTIVE DIRECTORS (CONTINUED)



Lee Tze Hau Michael

**Non-Executive
Director**

Board appointment Mr. Lee joined the Board in January 2010, having previously served as a Director from 1990 to 2007. He is aged 56.

Competencies and experience Mr. Lee is currently a director of Oxer Limited, a private investment company. He is also an independent non-executive director of Chen Hsong Holdings Limited, Trinity Limited; and a Steward of The Hong Kong Jockey Club. He was previously an independent non-executive director of Hong Kong Exchanges and Clearing Limited and an independent non-executive director and chairman of OTC Clearing Hong Kong Limited. Mr. Lee was also a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited. (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company.)

Qualifications Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University.

Committee Mr. Lee is a member of the Remuneration Committee.

SENIOR MANAGEMENT

Lui Kon Wai Ricky MBA, MCIOSB Chief Operating Officer

Mr. Lui joined Hysan as the Group's Chief Operating Officer in December 2016. He assists the Chairman in translating and executing the Group's strategy and vision into operational and financial attainment. Mr. Lui also drives the Group's business growth, development and investment and serves as a director of certain Hysan subsidiaries. Mr. Lui has over 25 years of experience as a senior executive in the property industry globally, covering acquisitions, development and asset management for residential, office, retail and large scale mixed use developments in Hong Kong, mainland China and overseas. He is aged 52.

Hao Shu Yan Roger BBA (Hons), CPA, ACA, ACCA Chief Financial Officer

Mr. Hao is responsible for the Group's financial control, treasury and information technology functions, and serves as a director of certain Hysan subsidiaries. He joined the Group in 2008. Mr. Hao accumulated extensive experience in auditing, financial management and control while holding senior positions in multinational corporations. He is aged 52.

Chan Wing Chung Sunny BEng (Hons), CEng, MCIBSE, MHKIE, LEED™ AP, BEAM Pro Director, Projects

Mr. Chan is responsible for the Group's development and project management function in regard to major property investments as well as significant refurbishment projects, and serves as a director of certain Hysan subsidiaries. He joined the Group in 2008. Mr. Chan accumulated extensive experience in developing, designing and managing high-quality and sustainable building projects while holding senior positions in property development corporations. He is aged 52.

Choy Man Wai Kitty BEcon, MSc, MBA Director, Retail

Ms. Choy is responsible for the Group's retail portfolio and asset management strategies, and serves as a director of certain Hysan subsidiaries. She joined the Group in 2000 and prior to joining Hysan, Ms. Choy held a supervisory position at a major property development company. She is aged 45.

Lam Tze Pon Tiffany B.Soc.Sc. (Information Management) Director, Marketing and Customer Experience

Ms. Lam is responsible for the Group's marketing strategies. She has recently joined the Group in January 2018. Prior to joining the Group, Ms. Lam accumulated extensive experience in retail and brand management in the premium luxury sector and the hospitality industry while holding senior positions in international retail corporations. She is aged 46.

Yip Mo Ching Jessica BSc (Surveying), MBA, MRICS, MHKIS, RPS Director, Office and Residential

Ms. Yip is responsible for managing the office and residential portfolio of the Group, and serves as a director of certain Hysan subsidiaries. Prior to joining the Group in 2012, Ms. Yip fulfilled various roles in international consultancies, occupiers and developers. She has extensive experience in the real estate industry. She is aged 41.

Corporate Governance Report

Governance at a Glance

1 Board Leadership

THE ROLE OF THE BOARD

- Board of Directors Mandate
- List of Matters Reserved for the Board Decisions

COMPOSITION OF THE BOARD

- Balance of 4 INEDs and 4 NEDs
- All Directors are appointed with a specific term of 3 years and are subject to rotation

DIVISION OF RESPONSIBILITIES

- Board of Directors Mandate
- Roles Requirements of Non-Executive Directors

2 Board Effectiveness

BALANCE/DIVERSITY OF SKILLS AND EXPERTISE

- Board Diversity Policy
- Diversity of skills and expertise (see “Balance, Diversity and Skills” section)

COMMITMENT

- All Directors are devoted, with time commitment

INDEPENDENCE

- Meetings of Non-Executive Directors without the Executive Director(s) or Board members relating to the founding Lee family

EVALUATION

- Formal board evaluation process via an electronic platform. The Board discusses the findings in detail at meetings (see “Board Evaluation 2017” section)

INFORMATION & SUPPORT

- Good information flow between the Board and the management
- Access to independent professional advice and company secretary

CONTINUOUS PROFESSIONAL DEVELOPMENT

- Directors receive trainings to refresh their skills and knowledge and to keep up to date with current developments

THE ROLE OF THE COMPANY SECRETARY

- Review and implement corporate governance practices
- Provide advice and support to Directors
- Keep Directors updated on legislative, regulatory and governance matters

3 Accountability

BOARD COMMITTEES

- 3 governance-related Board Committees have been established
- Board Committees report to the Board (see “Audit Committee Report” on pages 86 to 89, “Remuneration Committee Report” on pages 90 to 97, “Nomination Committee Report” on pages 98 to 99 and “Strategy Committee Report” on page 100)

RISK MANAGEMENT AND INTERNAL CONTROL

- Review and monitor management’s risk management process and assess effectiveness of financial controls and other internal controls (see “Risk Management and Internal Control Report” on pages 50 to 57 and “Audit Committee Report” on pages 86 to 89)

FINANCIAL REPORTING

- Independent Auditor’s Report (see pages 115 to 118)

AUDIT COMMITTEE AND AUDITORS

- Audit Committee Report (see pages 86 to 89)
- Internal Audit function
- External Auditor appointment

4 Relations with Stakeholders & Shareholders

CONSTRUCTIVE USE OF GENERAL MEETINGS

- Accessible AGM
- Committee Chairmen available at AGM to answer questions (in person or via dial-in)
- Notice sent out more than 20 business days before meeting (exceeds requirement under Corporate Governance Code)

DIALOGUE WITH SHAREHOLDERS

- Enhance shareholder communication by electronic channels
- Organise shareholders’ visits for understanding the Group, its portfolio, history and sustainable activities and other business areas

Beyond Compliance: Corporate Governance at Hysan

Hysan embraces strong governance as the foundation for delivering its strategic objective of consistent and sustainable performance. During the year 2017, Hysan continued to comply fully with the requirements of the provisions contained in the Corporate Governance Code (the “Corporate Governance Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The following are among the major areas in which Hysan’s system of corporate governance practices exceed the Corporate Governance Code.

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	Formal Corporate Governance Guidelines* since 2004
✓	Formal Board of Directors Mandates* and a detailed List of Matters reserved for the Board Decisions* provide a clear division of roles established between the Board and management
✓	Formal criteria and requirements* established for Non-Executive Director appointments with expected time commitment
✓	Board evaluation of its own performance and that of its committees by completion of questionnaires through an electronic platform. Directors’ feedback was analysed and discussed in meetings
✓	Code of Ethics* applicable to all staff and Directors since 2005; a separate Whistleblowing Policy* since 2016
✓	Corporate Disclosure Policy* and a Disclosure Committee to guide and promote timely and accurate disseminated disclosure of inside information and stakeholder communications
✓	Auditor Services Policy* for the engagement of auditors
✓	Fraud handling policy and procedures to control and aid in the detection and prevention of fraud
✓	Publication of separate Corporate Governance Report, Audit Committee Report, Remuneration Committee Report, Nomination Committee Report, Strategy Committee Report and Risk Management and Internal Control Report

Exceed Corporate Governance Code Provisions
Best Practices in Corporate Governance at Hysan

✓	Formal Corporate Responsibility Policy under which the Corporate Responsibility Report is published
✓	More than 20 clear business days' notice for the AGMs, which include a detailed business review
✓	All voting at AGMs conducted by poll since 2004
✓	Early announcement of audited financial results within 2 months and publication of Annual Report within 3 months after the financial year-end
✓	Continuous enhancement of shareholder communication, including introduction of shareholders' visits since 2016
✓	Proposal to adopt 10% limit of and set a discount of not more than 10% on the share issue price to issue additional shares under general mandate in 2018 AGM
✓	Arrangements have been made since December 2015 to ascertain the shareholders' preference as to the means of receiving corporate communications, with an aim to protect environment and enhance the use of the Group's corporate website as a means of shareholder communications
✓	Proactive invitation to major nominee companies by Hysan to forward communication materials to the ultimate beneficial shareholders at the Group's expense
✓	Additional assurance from Internal Audit on the review of continuing connected transactions

* Detailed policies/terms of reference are available on the Company's website: www.hysan.com.hk/governance.

In an effort to reduce consumption of resources from printing and distributing hard copies, the Hysan Corporate Responsibility Report has been prepared for electronic distribution and is made available for public viewing on Hysan's website: www.hysan.com.hk. Limited copies are printed and distributed, primarily to our shareholders. A summary of the Corporate Responsibility Report is provided on pages 101 to 102 of this Annual Report.

Our Governance Framework

Hysan operates within a clear and effective governance structure. The Board is collectively responsible for the long-term success of the Group and for its leadership, strategy planning, control and risk management, culture, values, corporate governance and financial performance.

The Board has established an Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee. The Committees enable the Board to operate effectively and ensure a strong governance framework for decision-making.

The Board retains control of the key decisions and has identified certain “reserved matters” that only it can approve. Other matters, responsibilities and authorities have been delegated to its Committees and senior management, as above. This ensures there is a clear division of responsibilities at the top of the Company between the running of the Board and the running of the Company’s business.

The Board and each Committee receive sufficient, reliable and timely information in advance of meetings and are provided with or given access to all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner.

The Board’s governance guidelines, policies, and procedures are normally reviewed on an annual basis. The Board also regularly assesses and enhances its governance framework, practices and principles according to developments in regulatory regimes and international best practices, as well as the Company’s needs.

The following are the key guidelines and components of Hysan’s governance framework:

- Corporate Governance Guidelines
- Board of Directors Mandate
- Roles and Responsibilities of Non-Executive Directors
- List of Matters Reserved for the Board Decisions
- Terms of Reference of the various corporate governance-related Board Committees
- Board Diversity Policy
- Auditor Services Policy
- Code of Ethics for Directors and Employees
- Corporate Disclosure Policy
- Whistleblowing Policy
- Procedures for Shareholders to Convene General Meetings/Put Forward Proposals
- Shareholders Communications Policy

THE BOARD

Collectively responsible for long-term success of the Group
Oversees overall governance, financial performance and sustainable development of the Group

<p>Leadership</p> <p>Provides leadership and direction for the business of the Group</p>	<p>Strategy Planning</p> <p>Sets strategy and oversees its implementation</p>	<p>Risk Management and Internal Control</p> <p>Ensures only acceptable risks are taken</p>	<p>Culture and Values</p> <p>Focuses on the long-term sustainability of business</p>
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BOARD COMMITTEES

AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	STRATEGY COMMITTEE
<ul style="list-style-type: none"> Reviews risk management and internal control systems Monitors internal and external auditors Oversees financial reporting process 	<ul style="list-style-type: none"> Sets remuneration policy for Executive Director(s) and senior management Determines Executive Director(s)' and senior management's remuneration and incentives 	<ul style="list-style-type: none"> Recommends Board appointments Reviews Board structure, composition and diversity Assesses independence of Independent Non-Executive Director Oversees succession planning 	<ul style="list-style-type: none"> Oversees the Group's strategic activities Aligns corporate responsibility initiatives with the corporate strategy



EXECUTIVE COMMITTEE

A management committee that operates daily business under the Board's delegation. It comprises Executive Director(s), Chief Operating Officer, Chief Financial Officer and other senior management of the Group as delegated from time to time. It assists the Board and the Company in preparing and agreeing operating plans, policies and procedures, and managing the operational and financial performance of the Group. It also addresses other key business and corporate related matters.

The Board in 2017

The Board meets regularly and there is an annual cycle of topics to be considered, including business and financial updates. Each Committee provides a summary of business discussed to the Board. Whilst strategy is considered at every Board meeting, one meeting each year is dedicated to this topic.

Employees below Board level are invited to present to the Board on operational topics during the year. Non-Executive Directors have direct and open access to employees below Board level.

Key areas of Board activities during the year

1 Strategy

- Reviewed the Group's strategy, in particular an in-depth review of the Group's next 10-year plan in Strategy Committee Meeting in November
- Reviewed the Group's performance versus budgets
- Considered and approved acquisitions and investments strategies
- Considered and approved the Group's funding strategy

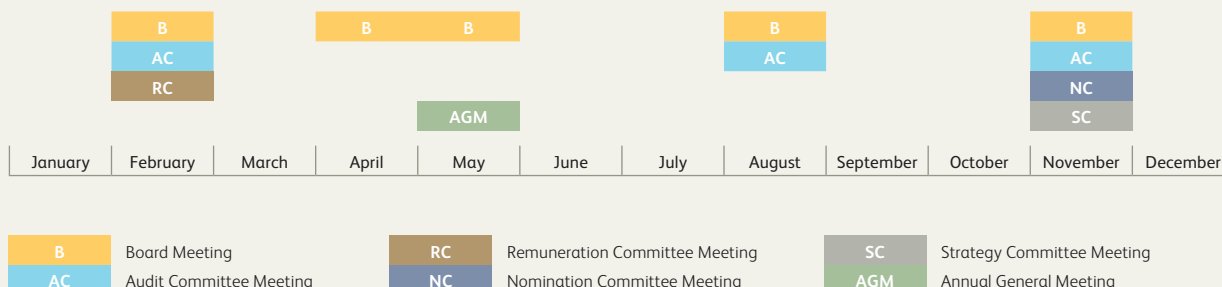
2 Risk Management and Internal Control

- Reviewed the Group's risk registers and assessed the risks with action plans
- Reviewed the effectiveness of Hysan's risk management and internal control framework and introduced the "Three Lines Of Defence" model to the existing framework based on COSO
- Reviewed and approved an enhanced company-wide regulatory compliance and governance framework and policy
- Reviewed corporate structure

3 Governance, Stakeholders and Shareholders

- Considered the general mandate and proposed the adoption of 10% limit of and set a discount of not more than 10% on the share issue price to issue additional shares at 2018 AGM
- Reviewed and approved an enhanced Policy on "Procedures for Shareholders to Convene General Meetings / Put Forward Proposals"
- Reviewed and approved an enhanced "Shareholders Communication Policy"
- Discussed the outcome of the Board evaluation and effectiveness review, and agreed improvement opportunities
- Reviewed key corporate governance related reports
- Reviewed the developments in corporate governance and received key legal and regulatory updates
- Received regular meeting reports from Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee
- Reviewed and approved the fees for Directors
- Reviewed List of Matters Reserved for the Board Decisions

BOARD AND COMMITTEE MEETINGS IN 2017



4 People and Leadership

- Appointed Advisor to the Board, Ms. Li Xinzhe Jennifer
- Reviewed the Board structure, size, composition and diversity, as well as “independence” of Directors
- Revised Terms of Reference of Strategy Committee, appointment of all committees’ chairmen to the Strategy Committee
- Reviewed the development of people and compensation for the senior management and other department heads

5 Financial and Operational Performance

- Considered the financial performance of the business and approved the annual budget
- Reviewed the interim and annual results, approved the interim and annual reports
- Reviewed and approved funding and treasury investment plan
- Reviewed and discussed financial forecasts and analyst feedback
- Declared dividends
- Reviewed operating results and regular updates for the Group’s core leasing business (Office, Retail and Residential segments)

2017 AGM

Total no. of participants **541**

Share voted **82%** of total issued shares

191

Individual Shareholders

43

Authorised representatives of HKSCC Nominees Limited





307










































Shareholders appointing representatives / proxies to attend the 2017 AGM

Corporate Governance Report

Attendance at Meetings

The following table shows Directors' attendance at Board, Committee and general meetings held in 2017:

-  Attended
-  Attended by tele-conference
-  Attended by alternate
-  Attended the meetings (or part of meetings) as invitee

Directors	Meetings Held/Attended					
	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	STRATEGY COMMITTEE	ANNUAL GENERAL MEETING
	(Total: 5)	(Total: 3)	(Total: 1)	(Total: 1)	(Total: 1)	(Annually)
Executive Director						
Lee Irene Yun-Lien						
Independent Non-Executive Directors						
Churchouse Frederick Peter			N/A	N/A		
Fan Yan Hok Philip						
Lau Lawrence Juen-Yee		N/A	N/A			
Poon Chung Yin Joseph ^(Note 1)						
Non-Executive Directors						
Jebsen Hans Michael		N/A	N/A	N/A		
Lee Anthony Hsien Pin			N/A	N/A		
Lee Chien		N/A	N/A			
Lee Tze Hau Michael		N/A		N/A		

Notes:

1. Poon Chung Yin Joseph was appointed a member of the Strategy Committee with effect from 22 February 2017.
2. Excused from the session to discuss the Executive Director's own compensation package.
3. Lau Siu Chuen ceased as a Non-Executive Director with effect from the conclusion of the annual general meeting held on 15 May 2017 (the "2017 AGM").

On an annual basis, the Board reviews the performance of the Directors to ensure they are contributing to the Board in a manner that allows them to perform their responsibilities to the Company and that they are spending sufficient time doing so. Through this review, the Board was satisfied that the Directors had a strong commitment to the Company and positively contributed to the Board through their participation in the Company's affairs and the Board's discussions and decisions, as reflected in their high attendance record on the Board and its Committee meetings during the year.

All Non-Executive Directors are engaged by formal letters of appointment with a specific term of 3 years, and they commit to Hysan that they will be able to give sufficient time and attention to meeting the high expectations placed upon them.

Board Leadership

The Board is governed by a formal **Board of Directors Mandate** (see the Company's website at www.hysan.com.hk/governance for details). This sets out the Board's stewardship role and shows how the Board is collectively responsible for strategic planning, risk management and internal control, as well as outlining the Group's culture and values, capital management, corporate governance, and Board succession.

Day-to-day management of the Group is delegated to the Executive Committee. The Board retains control of the key decisions and has identified certain "reserved matters" that only it can approve. The **List of Matters Reserved for the Board Decisions** is reviewed annually. Executive Committee members include the Executive Director(s), the Chief Operating Officer, Chief Financial Officer, and other members as may be appointed by the Board from time to time.

BOARD SIZE, COMPOSITION, AND APPOINTMENTS

As at 31 December 2017, there were 9 Directors on the Board: the Chairman and 8 Non-Executive Directors (including 4 Independent Non-Executive Directors). Lee Irene Yun-Lien is currently the executive Chairman. In addition to her role in leading the Board, she advises, supports and coaches the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value.

The Board reviews its structure, size and composition from time to time; the last review was held in November 2017.

Non-Executive Directors are appointed for a specific term of 3 years and are subject to re-election at the first AGM following their appointment. Every Director will be subject to retirement by rotation at least once every 3 years under the Company's Articles of Association. Retiring Directors are eligible for re-election at the AGM at which they retire. There is no cumulative voting in Director elections. The election of each candidate is executed through a separate resolution.

Lau Lawrence Juen-Yee, Lee Tze Hau Michael and Poon Chung Yin Joseph will retire at the forthcoming AGM to be held on 8 May 2018. All of them being eligible, they would offer themselves for re-election. Details with respect to the candidates standing for re-election as Directors are set out in the AGM circular to shareholders.

SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation).

Board Effectiveness

BALANCE, DIVERSITY AND SKILLS

Hysan recognises the importance of diversity among its Board members, which not only contributes to the effectiveness of the Board but also the success of the Group's business.

Our Non-Executive Directors (including 4 Independent Non-Executive Directors) have diverse backgrounds in areas such as economics, finance, business management, professional practices, and property investment. Biographies of each Director can be found on pages 60 to 64 as well as on the Company's website at www.hysan.com.hk/about-us.

Corporate Governance Report

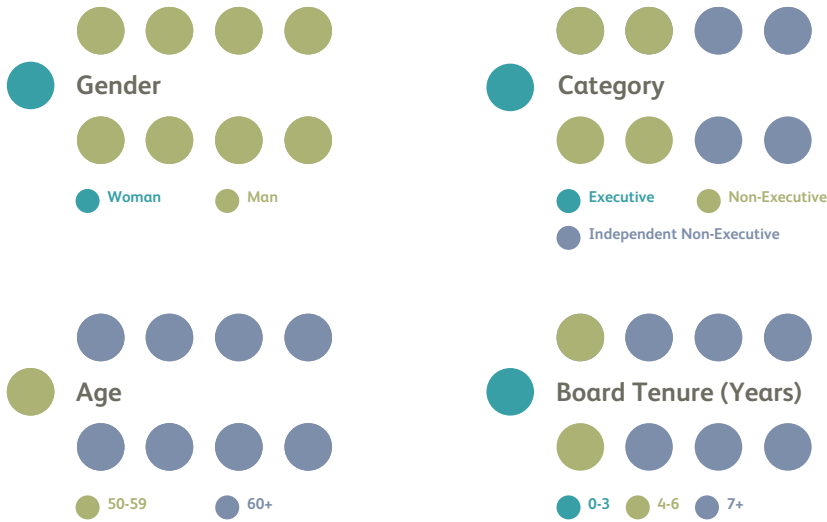
Recognising the vitality of diversity for Board, the Board has adopted a separate Board Diversity Policy in 2016. The Board remains committed to ensure that the selection of candidates for Board appointments is based on a range of diverse perspectives, including gender, age, cultural / educational and professional background, skills and experience. Decisions with regard to Board appointments are based on merit balanced against the contributions that a prospective candidate will bring to the Board. The Board is also committed to strengthening the diversity across the Group. Similar considerations are used when selecting key management and other personnel across the Group's operations. For details on our hiring practices, please refer to our Corporate Responsibility Report.

Our 8 Non-Executive Directors are from diverse and complementary backgrounds. The valuable experience and expertise they bring to our business are critical for the long-term growth of the Group:

Skills/ Experience	Summary	Combined
Customer and Retail	Experience in major retail, customer products, services or distribution companies.	
Property Investment	Experience in major companies in property investment, development or facilities management, or related industry.	
Financial Services and Investment	Experience in the financial services industry or in overseeing financial transactions and investment management.	
Governance	Experience and commitment to exceptional corporate governance standards.	
Risk Management	Experience in anticipating and identifying key risks to the organisation and monitoring the effectiveness of risk management framework and controls.	
Strategy	Experience in defining strategic objectives, assessing business plans and driving execution in large and complex organisations.	
Financial Acumen	Understand financial drivers of the business, and experience in implementing or overseeing financial accounting, reporting and internal controls.	
People and Culture	Experience in monitoring a company's culture, overseeing people management and succession planning, and setting remuneration frameworks.	

Legend ● Extensive ● Moderate

The Board | 9 |



(Directors' full biographies, including relationships among members of the Board, are set out on pages 60 to 64 and are also available on the Company's website: www.hysan.com.hk/about-us)

The Board | 9 |



Key Operational Management | 14 |



* Key operational management is defined as the 14 heads of departments/units of the Group, but does not include the Executive Director(s), who also maintains a management/supervisory role for operations.

Corporate Governance Report

INDEPENDENCE OF DIRECTORS

Hysan is a listed company with a major shareholder family. The Board remains committed to maintaining independence.

- The Board has policies and processes in place to avoid conflicts of interest or perception of conflicts of interest in compliance with the Hong Kong Companies Ordinance. Board members are reminded every half year of this requirement through an explanatory note from the Company Secretary.
- Non-Executive Directors hold separate discussion sessions every year, **without** the presence of Executive Director(s) or Board members relating to the founding Lee family. There were 2 separate discussions in 2017.
- Any dealings with persons and entities regarded as “connected transactions” with the Group under the Listing Rules are subject to the approval of the full Board, as described in the **List of Matters Reserved for the Board Decisions**. “Exempted transactions” as defined by the Listing Rules’ disclosure requirements must also be reported to the full Board after management approval.
- The Company has clear **Corporate Governance Guidelines**, Directors are considered to be independent only if they are free from any business or other relationship that may interfere with the exercise of their independent judgment.

During the reporting year, the Nomination Committee carried out a detailed review of the directors’ independence and was satisfied that each of the 4 Independent Non-Executive Directors was independent at the time of review.

CHECKS AND BALANCES

“Connected Transactions” with related persons subject to full Board decision	This is covered in our List of Matters Reserved for the Board Decisions . The relevant requirements are more stringent than those under the Listing Rules.
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Appointment of 4 Independent Non-Executive Directors with diverse backgrounds	4 Independent Non-Executive Directors have been drawn from diverse backgrounds, including economics, financial services and investment, business management, professional (accounting), and property investment.
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Clear “independence” standards for individual Directors	These are laid down in our Corporate Governance Guidelines .
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Detailed annual review of independence of individual Directors	The Nomination Committee carries out a detailed review of Directors’ independence annually.
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INDEPENDENCE STATUS

Name	Management	Independent	Not Independent	November 2017 Review – Reason for Independence Status
Churthouse Frederick Peter		✓		No business or other relationships with the Group or management that will affect independence
Fan Yan Hok Philip		✓		No business or other relationships with the Group or management that will affect independence
Jebsen Hans Michael			✓	
Lau Siu Chuen ^(Note 1)			✓	
Lau Lawrence Juen-Yee		✓		No business or other relationships with the Group or management that will affect independence (Note 2)
Lee Anthony Hsien Pin			✓	
Lee Chien			✓	
Lee Irene Yun-Lien	✓			
Lee Tze Hau Michael			✓	
Poon Chung Yin Joseph		✓		No business or other relationships with the Group or management that will affect independence

Notes:

- Lau Siu Chuen ceased as a Non-Executive Director with effect from the conclusion of the 2017 AGM.
- Lau Lawrence Juen-Yee's spouse is Partner in-charge, Tax, Hong Kong, at KPMG China, and a board member of KPMG China. KPMG is a tenant of the Group and provides taxation services principally as tax representative of the Company and certain subsidiaries, which are routine services in nature. Mrs. Lau has not been involved in any business negotiations with the Group, or in the provision of any services, and will refrain from doing so. The Board and its Nomination Committee had assessed the independence of Professor Lau in light of the circumstances, including (i) Professor Lau's background, experience, achievements, as well as character; (ii) the nature of the Company's relationship with KPMG and Mrs. Lau's roles as described above; and concluded that his independence would not be affected.

BOARD EVALUATION 2017

This year's review of the Board's effectiveness was conducted internally and was led by the Chairman with the support of the Company Secretary. The evaluation required each Director to complete anonymously an online questionnaire that focused on matters such as Board's performance, the nature and content of Board meetings. The survey encouraged the Directors to provide comments or enabled them to raise any concerns.

The Chairman, supported by the Company Secretary, collated the output of the questionnaires and formulated a detailed report. The report was prepared based on the collective comments from all the Directors, and reports from the Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee. These reports were considered and discussed by the Board.

The conclusion from this year's evaluation was that the Board and its Committees continued to operate to a high standard, and work well effectively. The results overall ranged from positive to very positive, and there were no specific concerns raised by any of the Directors to the Chairman or anonymously through the online questionnaires. Areas that were assessed as being particularly strong included the culture and integrity in the Board room, the Board's collective judgement and overall performance, Board information and the involvement of Directors in the discussions.

As with every high performing Board, the Directors continue to look for areas of improvement. The Board will ensure that its meeting agendas are forward looking in terms of investment opportunities and strategic development. The Chairman will continue to lead the process of building on current strengths of the Board and innovating further to build on the points outlined above, with the support from the Directors.

PROFESSIONAL DEVELOPMENT, SUPPORT AND TRAINING FOR DIRECTORS AND SENIOR MANAGEMENT

The Board held several specific knowledge development sessions during the year, ranging from wider market retail "new normal" presented by a notable market researcher to Portfolio Tour of Bamboo Grove led by senior management. Directors continued to receive regular reports facilitating greater awareness and understanding of the Group's business and the compliance regulatory updates.

Directors have expressed that the trainings over the past year have been stimulating and very relevant. Directors indicated that there were adequate training opportunities.

When newly-appointed Directors join the Group, they will receive an induction briefing that gives them an understanding of the Group, its businesses and operations (including the major risks it faces).

Ongoing development sessions are also arranged to the senior management and subsidiaries directors to update their skills and knowledge as appropriate. Throughout the year, various seminars on regulatory obligations and compliance and best practices and procedures were provided to the senior management and subsidiaries directors.

Hysan has a new management trainee programme in 2017 to cultivate our future leaders, which aims at developing our talent pipelines to meet our long term business needs.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT IN 2017

Directors	Attending trainings organised by Hysan	Attending expert briefings / seminars / conferences organised by third parties relating to the business or directors' duties	Perusing legal and regulatory updates prepared by Hysan quarterly
Executive Director			
Lee Irene Yun-Lien	✓	✓	✓
Independent Non-Executive Directors			
Churchouse Frederick Peter	✓	✓	✓
Fan Yan Hok Philip	✓	✓	✓
Lau Lawrence Juen-Yee	✓	✓	✓
Poon Chung Yin Joseph	✓	✓	✓
Non-Executive Directors			
Jebsen Hans Michael	✓	✓	✓
Lee Anthony Hsien Pin	✓	✓	✓
Lee Chien	✓	✓	✓
Lee Tze Hau Michael	✓	✓	✓

INDEPENDENT ADVICE

When occasions arise where Directors feel that they require independent professional advice in order to fulfil their obligations as Board members, this advice may be obtained at the Company's expense as stated in our Corporate Governance Guidelines.

Accountability

BOARD COMMITTEES IN 2017

The Board has 3 governance-related Board Committees that provide effective oversight and leadership in accordance with the Group's Corporate Governance Guidelines. Each Committee has access to independent professional advice and counsel as required, and each is supported by the Company Secretary. These committees report to the Board.

Full details of the Committee activities during the year are set out in their respective reports:

- "Audit Committee Report" on pages 86 to 89
- "Remuneration Committee Report" on pages 90 to 97
- "Nomination Committee Report" on pages 98 to 99
- "Strategy Committee Report" on page 100

Relations with Stakeholders & Shareholders

Hysan is committed to maintaining an open dialogue with shareholders and providing them with the information they require to make sound investment decisions.

Accountability to Shareholders and Corporate Reporting

- Annual Report, Interim Report, press releases and announcements are disclosed in a timely manner.
- Shareholder enquiries can be made via the Investor Relations function by email to investor@hysan.com.hk.

Information via Internet

- Key corporate governance policies, terms of reference of Board Committees, Group's financial reports, press releases and announcements are available on the website.
- Shareholders have the option to receive corporate communications by electronic means. Hard copies of the Hysan website information are also available free of charge upon request to the Company Secretary.

Institutional Shareholders

- Ongoing dialogue and meetings between Chief Operating Officer, Chief Financial Officer, and institutional investors, fund managers and analysts.
- Regular presentations or conference calls are made to analysts and investors.
- Results announcement presentations to analysts are disseminated by webcasts as well.



Constructive Use of AGM

- AGMs act as a means of conducting a dialogue with private shareholders.
- Individual shareholders can put questions to the Chairman at the AGM.
- Board Committees Chairmen attend AGMs to respond to shareholders' questions.
- Since 2004, a business review session has been included in our AGMs. Topics at the last AGM included: the business environment in 2016, a review of business activities, and the Company's outlook for 2017.

Shareholders' Visit

- The shareholders' visit is an opportunity every year for the management to communicate with the shareholders, who gain insights into the Company's history, sustainable activities and other business areas.

Corporate Disclosure Policy

- The Group's Corporate Disclosure Policy guides the disclosure of material information to investors, analysts and media.
- This policy also identifies who may speak on Hysan's behalf and outlines the responsibilities for communication with various stakeholder groups.
- Details are available at the Company's website: www.hysan.com.hk/governance.

Shareholder Communication via Nominee Companies

- Since 2005, we have been inviting major nominee companies to forward communication materials to shareholders at our expense.

Electronic Communication

- Since December 2015, shareholders can receive corporate communications via electronic means.
- Greater use of the Group's website is being made for our corporate communications.

Provision of Sufficient and Timely Information

- AGM notice, Annual Report, and financial statements are dispatched to shareholders more than 30 days prior to the AGM, exceeding the statutory requirement of 21 days.
- Comprehensive information is sent on each resolution to be proposed.

Policy

- Shareholders' Communication Policy recognises our commitment to provide our shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company.

Voting

- Since 2004, we have conducted all voting at AGMs by poll.
- The poll is conducted by the Company's Registrar and scrutinised by the Group's auditors.
- Procedures for conducting a poll are explained at the general meeting prior to the taking of the poll.
- Poll results are announced and posted on the websites of both the Stock Exchange and the Company.

Relevant Provisions in Articles of Association and Hong Kong Law

- A general meeting of shareholders can be convened by the Board or with a written request signed by shareholders holding at least 5% of the total voting rights of all the shareholders ("5% Shareholder"), in accordance with the Company's Articles of Association and Hong Kong Companies Ordinance.
- A 5% Shareholder may request to have resolutions passed by way of written resolution.
- Shareholders may put forward proposals for consideration at a general meeting according to the Hong Kong Companies Ordinance and the Articles of Association.
- All requests shall state the general nature of the business to be dealt with at the meeting and deposited at the Company's registered office (49/F, Lee Garden One, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary).
- There are no limitations imposed by Hong Kong law or our Articles of Association on the right of non-residents or foreign persons to hold or vote on the Company's shares, other than those that would generally apply to all shareholders.
- Changes to allow Directors to signify agreement to a director's written resolution by electronic means were proposed and approved at the AGM held in May 2017. Amendments have been made to our Articles of Association in May 2017 to reflect this.
- Details of Procedures for Shareholders to Convene General Meetings / Put Forward Proposals is available on the Company's website.

Directors' Interests in Shares

As at 31 December 2017, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

AGGREGATE LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Name	Number of ordinary shares held				Total	% of the total no. of issued shares (Note a)
	Personal interests	Family interests	Corporate interests	Other interests		
Jebsen Hans Michael	60,984	–	2,473,316 (Note b)	–	2,534,300	0.242
Lee Chien	800,000	–	–	–	800,000	0.076
Lee Irene Yun-Lien	304,000	–	–	–	304,000	0.029

Notes:

(a) This percentage was compiled based on the total number of issued shares of the Company (i.e. 1,045,824,891 ordinary shares) as at 31 December 2017.

(b) Such shares were held through a corporation in which Jebsen Hans Michael was a member entitled to exercise no less than one-third of the voting power at general meeting.

Executive Director(s) of the Company have been granted share options under the share option schemes (details are set out in the section headed "Long-term incentives: Share Option Schemes" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

AGGREGATE LONG POSITIONS IN SHARES OF ASSOCIATED CORPORATIONS

Listed below is a Director's interest in the shares of Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company:

Name	Number of ordinary shares held		Total	% of the total no. of issued shares
	Corporate interests	Other interests		
Jebsen Hans Michael	1,000	–	1,000	10 (Note)

Note:

Jebsen and Company Limited ("Jebsen and Company") held a 10% interest in the total number of issued shares in Barrowgate through a wholly-owned subsidiary. Jebsen Hans Michael was deemed to be interested in the shares of Barrowgate by virtue of being a controlling shareholder of Jebsen and Company.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2017 were recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the year.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, certain Directors had interests, directly or indirectly, in contracts with the Group. These contracts constituted Related Party Transactions, Connected Transactions or Contracts of Significance under applicable accounting or regulatory rules (details are disclosed in the "Directors' Report").

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Group is engaged principally in the property investment, development and management of high quality investment properties in Hong Kong. The following Directors (excluding Independent Non-Executive Directors, in accordance with Listing Rules disclosure requirements) are considered to have interests in other activities (the "Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules:

- (i) Lee Irene Yun-Lien, Lee Anthony Hsien Pin, Lee Chien, Lee Tze Hau Michael and Lau Siu Chuen (ceased as a Non-Executive Director with effect from the conclusion of the 2017 AGM) are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) Jebesen Hans Michael and his alternate, Yang Chi Hsin Trevor, hold the offices of directors in Jebesen and Company. Business activities of some of its subsidiaries include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebesen is also a substantial shareholder of the companies.

Mr. Jebesen is an independent non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.
- (iii) Lee Chien is an independent non-executive director of Swire Pacific Limited whose business includes, inter alia, property investment and trading in Hong Kong, the People's Republic of China and the United States of America.

The Company's management team is separate and independent from that of the companies identified above. In addition, save and except Lee Irene Yun-Lien, the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

For the reasons stated above, and coupled with the diligence of the Group's Independent Non-Executive Directors and the Audit Committee, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

The Board also has a process in place to regularly review and resolve situations where a Director may have a conflict of interest.

By Order of the Board
Lee Irene Yun-Lien
Chairman

Hong Kong, 28 February 2018

Audit Committee Report

COMPOSITION	HIGHLIGHTS
Majority are Independent Non-Executive Directors	<ul style="list-style-type: none"> Reviewed the adequacy and effectiveness of the Company's risk management and internal control systems Reinforced the risk management structure by adopting the "Three Lines of Defence" Model and an enhanced Group compliance framework and policy
COMMITTEE MEMBERS	KEY RESPONSIBILITIES
Poon Chung Yin Joseph* (Chairman) Churchouse Frederick Peter* Fan Yan Hok Philip* Lee Anthony Hsien Pin <small>*Independent Non-Executive Director</small>	<ul style="list-style-type: none"> Oversees the integrity of the Group's reporting process and financial management Reviews the major risks identified and ensure an effective risk management and internal control systems are in place Reviews the risk management and internal control framework Reviews the relationships with the external auditors

Meetings Schedule

The Audit Committee held 3 meetings during the year. At the invitation of the Audit Committee, these meetings were also attended by the Board Chairman and members of management (including the Chief Operating Officer and the Chief Financial Officer). Pre-meeting sessions with external and internal auditors were held without management's presence.

Roles and Authority

- Oversees the Company's financial reporting process and the respective work of management and the external auditor to endorse the processes and safeguards employed by them. In this process, management is responsible for the preparation of the Group's financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls in such regard. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of this Annual Report.
- Reviews the Company's risk management and internal control systems.
- Reviews report on major risks which the Group is facing in a designated meeting held in November.
- Reviews the adequacy of resources, qualifications and experience of staff of the Group's internal audit, accounting and financial reporting functions, and their training programmes and budget.
- Reviews the Group's Whistleblowing Policy. Under this policy, employees and related third parties who deal with the Group (e.g. consultants, contractors and suppliers) can raise concerns, in confidence or anonymously, about misconduct, malpractice or irregularities in any matters related to the Group. The Audit Committee ensures that the concerns raised are investigated and followed up as appropriate.
- Reviews the effectiveness of the Company's internal audit function.
- Reviews its relationship with the external auditor.
- Reports to the Board on its findings after each Committee meeting.

Activities

Details on the meeting held in February 2017 were set out in the 2016 Annual Report.

From March 2017 up to February 2018, the Audit Committee held 3 meetings to:

FINANCIAL REPORTING

- Review and discuss with management and the external auditor, and recommend to the Board to approve, the unaudited financial statements for the first 6 months ended 30 June 2017, the audited financial statements for the year ended 31 December 2017 and the Independent Auditor's Report for the year ended 31 December 2017, prior to their publication based on the following and the external auditor's review work:
 - Discuss with the external auditor and internal auditor the scope of their respective review and findings.
 - Discuss with management on significant judgments affecting the Group's financial statements, including valuation of investment properties and investments under redevelopment as at 30 June 2017 and 31 December 2017. In particular, there were discussions on the residual valuation approach/income capitalisation approach (as appropriate) adopted by the independent professional valuer, Knight Frank Petty Limited, for Lee Garden Three, with the Group's independent professional valuer present at meetings to answer the Committee's questions.
 - Review with both management and the external auditor the Key Audit Matters included in the Independent Auditor's Report for the year ended 31 December 2017.

RELATIONSHIP WITH EXTERNAL AUDITOR

- Review and consider the terms of engagement of the external auditor in respect of the 2017 final results (including 2017 annual audit, the related results announcement, and annual review of continuing connected transactions) and the annual update of the Group's MTN Programme.
- Review the audit progress report of the external auditor.
- Annually assess and declare satisfaction with the auditor's qualifications, expertise and services, and independence. In particular, it was satisfied that the auditor's independence and objectivity have not been impaired by reason of the provision of non-audit services. All services have been pre-approved by the Audit Committee. Appropriate policies and procedures have been established to identify audit and non-audit services as well as prohibited non-audit services that impair the independence of the auditor. An arrangement for lead audit partner rotation was also established by the auditor, who is required to comply with professional ethics and independence policies and requirements applicable to the work performs, as well as to issue an annual confirmation on auditor's independence.

Audit Committee Report

External Auditor's Services and Fees

	2017 HK\$ million	2016 HK\$ million
Audit Services	2.66	2.50
Non-audit Services (Note)	0.99	0.94
Total	3.65	3.44

Note:

"Non-audit services" referred to agreed-upon-procedure reports or statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these included reviews of interim financial statements, issue of assurance reports for continuing connected transactions, and reviews of financial information in connection with the annual updates of the Group's MTN Programmes in 2017 and 2016 respectively.

- Review and consider the 2018 audit service plan of the external auditor, and the terms of its engagement in respect of the 2018 interim results review.
- Recommend to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2018.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

- Consider and approve an enhanced risk management and internal control framework by introducing "Three Lines of Defence" Model to our existing risk management model based on COSO.
- Review and approve an enhanced Group compliance framework and policy.
- Discuss with management the new procurement system for property services function.
- Review and assess the existing corporate structure and make recommendation of ongoing structure.
- Discuss with management the major risks the Group is facing.
- Review the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, and their training programmes and budget.
- Review the whistleblowing reports.
- Review 2017 annual risk management and internal control systems based on:
 - reports of the Internal Audit on the review of the Company's continuing connected transactions for the year ended 31 December 2017 and the adequacy and effectiveness of the related internal control procedures
 - regular reports by management of major risks, and special reports on selected major risk items
 - regular reports of the Internal Audit, including status of implementation of its recommendations
 - certification and confirmation of controls effectiveness by management, covering financial, operational, compliance controls, risk management and internal controls, noting the adoption of a control self-assessment questionnaire across the operating departments
 - confirmation from the external auditor that it had not identified any control weaknesses during the course of its audit.

The Committee was satisfied as to the adequacy and effectiveness of the Company's risk management and internal control systems (including the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, and their training programmes and budget). No significant areas of concern which might affect financial, operational, compliance controls, internal audit, risk management and internal controls functions were identified.

INTERNAL AUDIT

- Review the management responses to audit reports issued during the year; and the progress made in implementing improvement actions.
- Consider and approve the scope of work to be undertaken by the Internal Audit function in 2018.

Members' attendance records are disclosed in the table on page 74.

EVALUATION

The Board and Committee evaluation process, which took place during the year, concluded that the Committee was effective in fulfilling its roles in 2017. For details, please refer to Corporate Governance Report – "Board Evaluation 2017" (page 80).

Members of the Audit Committee

Poon Chung Yin Joseph (*Chairman*)
Churchouse Frederick Peter
Fan Yan Hok Philip
Lee Anthony Hsien Pin

Hong Kong, 28 February 2018

Remuneration Committee Report

HIGHLIGHTS	
COMPOSITION	<ul style="list-style-type: none"> • Approved Executive Director compensation package • Reviewed remuneration for Non-Executive Directors and senior management • Considered the long term incentive scheme
Majority are Independent Non-Executive Directors	
COMMITTEE MEMBERS	KEY RESPONSIBILITIES
Fan Yan Hok Philip* (Chairman) Lee Tze Hau Michael Poon Chung Yin Joseph* <small>*Independent Non-Executive Director</small>	<ul style="list-style-type: none"> • Reviews Hysan's framework or general policies for the remuneration of the Executive Director(s) and the senior management • Reviews the remuneration packages of the Executive Director(s), Non-Executive Director(s) and senior management • Reviews share incentive plans

Meeting Schedule

The Remuneration Committee generally meets at least once every year. On matters other than those concerning them, the Executive Director(s) and management may be invited to the Committee meetings. No Director is involved in deciding his own remuneration.

Roles and Authority

- Reviews Hysan's framework or general policies for the remuneration of the Executive Director(s) and members of the senior management as recommended by the Management and makes recommendations to the Board.
- Reviews the remuneration of Executive Director(s) and senior management.
- Reviews the fees payable to Non-Executive Directors and Board Committee members prior to approval at the AGM.
- Reviews new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans with material financial, reputational, and strategic impact.

Activities

During the year 2017, the Remuneration Committee held a meeting to:

- Approve the 2017 Executive Director compensation package (including annual fixed base salary and annual special fee in recognition of the extra responsibilities she assumed), and the 2016 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members.
- Review compensation of senior management and other department heads.
- Review and consider the long term incentive scheme.

In February 2018, the Remuneration Committee also held a meeting to:

- Approve the 2018 Executive Director compensation package (including annual fixed base salary and annual special fee in recognition of the extra responsibilities she assumed), and the 2017 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members.
- Review compensation of senior management and other department heads.
- Review and consider the long term incentive scheme.

Members' attendance records are disclosed in the table on page 74.

Executive Director(s) and Senior Management Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality employees. At the same time, awards must be aligned with the shareholders' interests.

The following principles have been established:

- Remuneration packages consist of (i) a fixed part (base salary and benefits); (ii) a performance-based component (bonus); and (iii) long-term incentives (executive share options). The structure will reflect a fair system of reward for all the participants, emphasising performance.
- Remuneration packages are set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing for a similar talent pool, with emphasis on the property industry. Independent professional advice will be sought where appropriate.
- The Committee will determine the overall amount of each component of remuneration, taking into account both quantitative and qualitative assessment of performance.
- Remuneration policy and practice will be as transparent as possible.
- Participants will develop significant personal shareholdings pursuant to the executive share options in order to align their interests with those of shareholders.
- Pay and employment conditions elsewhere in the Group will be taken into account.
- The remuneration policy for Executive Director(s) and senior management will be reviewed regularly, independently of executive management.

Details of Directors' (including individual Executive Director(s)) and senior management emoluments for the year 2017 and option movements for Executive Director(s) during the year are set out in notes 11, 12 and 38 respectively to the consolidated financial statements.

Remuneration Committee Report

Non-Executive Director Remuneration Policy

Key elements of our Non-Executive Director remuneration policy include the following:

- Remuneration should be at an appropriate level to attract and retain first class non-executive talent.
- Remuneration of Non-Executive Directors is (subject to shareholders' approval) set by the Board and should be proportional to their commitment and contribution towards the Company.
- Remuneration practice should be consistent with the recognised best practice standards for Non-Executive Director remuneration.
- Remuneration should be in the form of cash fees, payable semi-annually.
- Non-Executive Directors do not receive share options from the Company.

Non-Executive Directors received no other compensation from the Group except for the fees disclosed below. None of the Non-Executive Directors received any pension benefits from the Company, nor did they participate in any bonus or incentive schemes.

Non-Executive Directors (including the Independent Non-Executive Directors) received fees totalling HK\$2,563,823 for the year 2017.

Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. Taking into consideration the level of responsibility, experience, abilities required of the Directors, level of care and amount of time required, as well as fees offered for similar positions in companies requiring the same talent, it is proposed for shareholders' consideration and approval that Director fees for Non-Executive Directors are revised. The current fee scale for Non-Executive Directors and Board Committee members and the proposed fees are set out below. Executive Director(s) will not receive any director fee(s).

	Current Fee Per annum HK\$	Proposed Fee Per annum HK\$
Board of Directors		
Non-Executive Director	225,000 (Note 3)	250,000
Audit Committee		
Chairman	135,000 (Note 3)	no change
Member	70,000 (Note 3)	no change
Remuneration Committee		
Chairman	60,000 (Note 2)	no change
Member	40,000 (Note 1)	no change
Strategy Committee		
Chairman	30,000	no change
Member	30,000 (Note 3)	no change
Other Committees		
Chairman	30,000	no change
Member	20,000	no change

Notes:

1. Approved by shareholders in 2011 AGM.
2. Approved by shareholders in 2014 AGM.
3. Approved by shareholders in 2016 AGM

Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2017 was 482. We have changed our skillset mix requirements to satisfy our strategic and operational needs, as well as to enhance our productivity and efficiency for 2017 and beyond. The Group's human resources practices are aligned with our corporate objectives so as to maximise shareholder value and achieve growth. Details on our human resources programs, training and development are set out in the "2017 Corporate Responsibility Report".

Long-term incentives: Share Option Schemes

The Company can grant options under executive share option schemes adopted from time to time. The purpose of the schemes is to strengthen the link between individual staff and shareholders' interests. The power of grant to Executive Director(s) is vested in the Remuneration Committee and endorsed by all Independent Non-Executive Directors as required under the Listing Rules. The Chairman or the Chief Executive Officer may make grants to management staff below Executive Director level.

THE 2005 SHARE OPTION SCHEME (THE "2005 SCHEME")

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme. No further option will be granted under the 2005 Scheme.

Under the 2005 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director(s)) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed the number of shares required under the Listing Rules, being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares).

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed the number of shares required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholders' approval, being 10,499,636 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for the exercise price to be made on exercise of the relevant options.

Remuneration Committee Report

THE 2015 SHARE OPTION SCHEME (THE “NEW SCHEME”)

The Company adopted the New Scheme (together with the 2005 Scheme, both are referred to as the “Schemes”) at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

Under the New Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director(s)) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of shares required under the Listing Rules, currently being 10% of the shares in issue as at 15 May 2015, the date of the AGM approving the New Scheme (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for “refreshing” the 10% limit under the New Scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time (or the number of shares required under the Listing Rules). No options may be granted if such a grant will result in this 30% limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not during any 12-month period exceed the number of shares required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholders’ approval, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for the exercise price to be made on exercise of the relevant options.

GRANT AND VESTING STRUCTURES

Under the Company’s current policy, grants will be made on a periodic basis. The exercise period is 10 years. The vesting period is 3 years in equal proportions starting from the 1st anniversary and shares will become fully vested on the 3rd anniversary of the grant. The size of the grant will be determined with reference to a base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

MOVEMENT OF SHARE OPTIONS

During the year, a total of 727,000 shares options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

As at the date of this Annual Report:

- (i) 1,677,667 share options granted (including 1,504,330 fully-vested share options) under the 2005 Scheme remained outstanding, representing approximately 0.16 % of the total number of issued shares of the Company;
- (ii) 1,426,000 share options granted (including 219,328 fully-vested share options) under the New Scheme remained outstanding, representing approximately 0.14 % of the total number of issued shares of the Company; and
- (iii) 104,883,738 shares are issuable under the New Scheme representing approximately 10 % of the total number of issued shares of the Company.

Details of options granted, exercised, cancelled/lapsed and outstanding under the Schemes during the year are as follows:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2017	Changes during the year			Balance as at 31.12.2017
					Granted	Exercised	Cancelled/ lapsed (Note b)	
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Eligible employees (Note c)								
	31.3.2008	21.96	31.3.2009 – 30.3.2018	11,000	–	(11,000) (Note d)	–	–
	31.3.2009	13.30	31.3.2010 – 30.3.2019	128,000	–	(69,000) (Note d)	–	59,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	126,334	–	(56,000) (Note d)	–	70,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	125,000	–	(39,000) (Note e)	(32,000)	54,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	160,001	–	(47,667) (Note f)	(7,000)	105,334
	28.3.2013	39.20	28.3.2014 – 27.3.2023	276,000	–	–	(123,000)	153,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	338,000	–	(139,000) (Note g)	(45,000)	154,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	359,000	–	(60,267) (Note h)	(94,066)	204,667
				2,500,335	–	(421,934)	(301,066)	1,777,335

Remuneration Committee Report

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2017	Changes during the year			Balance as at 31.12.2017
					Granted	Exercised	Cancelled/ lapsed (Note b)	
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25 (Note i)	23.2.2018 – 22.2.2027	–	300,000	–	–	300,000
Eligible employees (Note c)	31.3.2016	33.05	31.3.2017 – 30.3.2026	610,000	–	(74,598) (Note j)	(157,734)	377,668
	31.3.2017	35.33 (Note k)	31.3.2018 – 30.3.2027	–	427,000	–	(18,000)	409,000
				985,000	727,000	(74,598)	(175,734)	1,461,668

Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon resignations of certain eligible employees.
- Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.25.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.95.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.99.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.86.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.79.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 22 February 2017) was HK\$36.00.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.69.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2017) was HK\$35.00.

Apart from the above, the Company did not grant any share option under the Schemes to any other persons during the year that is required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Schemes are set out in note 38 to the consolidated financial statements.

VALUE OF SHARE OPTIONS

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the year is to be expensed through the Group's statement of profit or loss over the three-year vesting period of the options.

The fair values of share options granted by the Company were determined by using the Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

Date of grant	31.3.2017	23.2.2017
Closing share price at the date of grant	HK\$35.250	HK\$36.250
Exercise price	HK\$35.330	HK\$36.250
Risk free rate (<i>Note a</i>)	1.331 %	1.488 %
Expected life of option (<i>Note b</i>)	5 years	5 years
Expected volatility (<i>Note c</i>)	19.133 %	20.238 %
Expected dividend per annum (<i>Note d</i>)	HK\$1.204	HK\$1.204
Estimated fair values per share option	HK\$4.374	HK\$4.958

Notes:

- (a) Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- (b) Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- (c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company over the past 5 years immediately before the date of grant.
- (d) Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years.

Members of the Remuneration Committee

Fan Yan Hok Philip (*Chairman*)

Lee Tze Hau Michael

Poon Chung Yin Joseph

Hong Kong, 28 February 2018

Nomination Committee Report

COMPOSITION	HIGHLIGHTS
Majority are Independent Non-Executive Directors	<ul style="list-style-type: none"> • Considered Board's evaluation results thoroughly • Considered the re-appointment and independence of directors • Nominated Ms. Li Xinzhe Jennifer as an advisor to the Board
COMMITTEE MEMBERS	KEY RESPONSIBILITIES
Lee Irene Yun-Lien (Chairman) Fan Yan Hok Philip* Lau Lawrence Juen-Yee* Lee Chien Poon Chung Yin Joseph* <small>*Independent Non-Executive Director</small>	<ul style="list-style-type: none"> • Reviews the structure, size, composition and diversity of the Board and makes recommendations to the Board • Assess independence of Independent Non-Executive Director

Meeting Schedule

The Nomination Committee generally meets at least once every year.

Roles and Authority

- Reviews and makes recommendations on the structure, size, composition and diversity of the Board to complement the Company's corporate strategies.
- Reviews the Board Diversity Policy.
- Nominates candidates to fill Board vacancies after careful consideration of the attributes and values required to help the effective functioning of the Board based on a combination of skills, knowledge and experience.
- Reviews the independence of Directors pursuant to the Listing Rules' requirements.
- Generally oversees succession planning of the Board.

Activities

During the year 2017, the Nomination Committee held a meeting to:

- Review the Board's structure, size, composition and diversity, monitor the progress made towards enriching the skills and experience of the Board members and improving the diversity within the Board. The Committee was satisfied that the current composition and size of the Board remained appropriate for the time being but these are kept under regular review.

- Consider and nominate Ms. Li Xinzhe Jennifer as an advisor to the Board, to further enrich the Board's skills and diversity.
- Consider the results of the Board's evaluations, recognising that such process is an important means of monitoring the Company's progress. The Committee is pleased to report that the recent Board performance evaluation concluded that it operated very well. The Committee was satisfied that all Directors were strongly committed to the Company and had contributed to the Board through their participation in the Company's affairs and discussions at the Board and Board Committees' meetings during the year, as reflected in their high attendance records.
- Consider the issue of re-appointment of the Directors who are due to retire at the forthcoming Annual General Meeting with the support of the Board.
- Assess the independence, effectiveness and commitment of each of the Company's Independent Non-Executive Directors. The Committee was satisfied that notwithstanding the length of service of such Directors, as well as their number and nature of office held in other public companies and their significant commitments, they remained highly committed to the Company, independent and impartial, and continued to be in a position to discharge their duties and responsibilities in the coming year.

Members' attendance records are disclosed in the table on page 74.

Members of the Nomination Committee

Lee Irene Yun-Lien (*Chairman*)

Fan Yan Hok Philip

Lau Lawrence Juen-Yee

Lee Chien

Poon Chung Yin Joseph

Hong Kong, 28 February 2018

Strategy Committee Report

	HIGHLIGHTS
	<ul style="list-style-type: none">Discussed business plans, as well as longer-term directional strategy for the growth of the Group
COMMITTEE MEMBERS	
Lee Irene Yun-Lien (Chairman) Fan Yan Hok Philip* Jebsen Hans Michael Lee Chien Poon Chung Yin Joseph*	KEY RESPONSIBILITIES
*Independent Non-Executive Director	<ul style="list-style-type: none">Reviews and recommends to the Board on the Group's strategic mattersAligns corporate responsibility initiatives with the Group's strategy

Meeting Schedule

The Strategy Committee generally meets at least once every year. Full Board members are also invited and attended.

Roles and Authority

The Strategy Committee is responsible for reviewing and making recommendations to the Board on the Group's strategic matters.

Activities

During the year 2017, the Strategy Committee held a meeting (with full Board members and senior management joined and actively participated) to:

- Review the Group's position and all the challenges the Group will be facing, the Company's culture, the impact of technology, changes in consumer behaviours as well as the resources and skills the business might require in future.
- Discuss business plans, as well as longer-term directional strategy for the growth of the Group.
- Discuss the Group strategy and emphasize the continuity of the Company's vision and mission and focus on the impact of global and Hong Kong changes and developments, and how the Group's business model might be affected.

The Board recognised the importance of formulating the Group's strategy and long term objectives for the future. The Board fully supported the strategy of strengthening our core and non-core operations today and for the next generations, and to position and transform the Lee Gardens to achieve stronger attainment. This commitment is to provide our stakeholders with sustainable and outstanding returns from a property portfolio which is strategically planned and managed by passionate, responsible and forward-looking professionals.

Members' attendance records are disclosed in the table on page 74.

Members of the Strategy Committee

Lee Irene Yun-Lien (Chairman)
Fan Yan Hok Philip
Jebsen Hans Michael
Lee Chien
Poon Chung Yin Joseph

Hong Kong, 28 February 2018

Corporate Responsibility Report – Summary

This section provides a summary of Hysan Development’s corporate responsibility strategy and accomplishments. As a “Business of Life”, Hysan continues to provide sustainable and outstanding returns for our shareholders, while also engaging our stakeholders in the creation of a sustainable community by using resources wisely and minimising negative social and ecological impacts.

Hysan is a constituent member of some of the leading international sustainability indices, including FTSE4Good Index and Hang Seng Corporate Sustainability Index (with an “AA” rating). Hysan’s efforts have also been recognised in MSCI’s Global Sustainability Index with an “AA” ESG rating. In regard to community initiatives, we were awarded the 15 Years Plus Caring Company logo by the Hong Kong Council of Social Service.

For details about Hysan’s corporate responsibility initiatives, please refer to the 2017 Corporate Responsibility Report on the Company’s website: www.hysan.com.hk

Hysan’s Corporate Responsibility Policy sets the framework for the way we manage our corporate responsibilities. Maintaining the highest ethical standards, focusing on health and safety, minimising environmental impacts, contributing to communities, respecting our staff, and encouraging partners to set high standards: these are our main corporate responsibility themes.

In regard to the Policy’s implementation, we strive to integrate our contribution to society into our core business operations and partnerships, and to provide expertise, manpower, venues and financial support to community projects.

Under the Corporate Responsibility umbrella, Hysan’s Environmental Policy focuses on measuring and reporting our carbon reduction efforts, promoting waste reduction at source, enhancing green purchasing and improving stakeholder engagement.

Highlights of 2017 Environmental Achievements



- Lee Garden One achieving Final Platinum rating under BEAM Plus Existing Buildings for its offices; Lee Garden Three and Hysan Place obtaining Provisional Platinum rating under BEAM Plus New Buildings and Existing Buildings respectively
- Lee Garden Three achieving United States Green Building Council’s LEED for Building Design and Construction: Core and Shell Development pre-certification at the Gold level
- Installing Well#, a smart water refill station at Hysan Place, taking a lead to reduce the use of disposable plastic bottles
- Further extending our Energy Accounting System to Lee Garden Five
- Reducing our energy use by over 11 % by the end of 2017, using 2005 as a baseline
- Achieving “Excellent Class” or “Good Class” certifications from the Hong Kong Government’s Indoor Air Quality Certification Scheme, and “Class of Excellence” Wastewi\$e labels under the Government’s Hong Kong Green Organisation Certification Scheme
- Reducing total potable water use by 2.5 % as compared to 2016

Corporate Responsibility Report – Summary

In the area of Workplace Quality, Hysan takes pride in having passionate, responsible and forward-looking professionals who provide our stakeholders with sustainable and outstanding returns from our quality property portfolio. Our Code of Ethics and Employment and Staff Policy are well observed. In 2017, one of our highlights in the human resources area was the implementation of a range of technology-based changes that are aimed at reducing the time and resources formerly expended on our manual systems. For example, we developed a mobile learning system to provide a more flexible solution for the training and communications of staff members, affording access to the system via smartphones, computers or other mobile devices.

Hysan also kick-started a new management trainee programme in 2017 in a bid to meet our long-term business needs. The programme is designed to develop talented university graduates with high potential to supply our leadership pipeline.

Our Health and Safety Policy focuses on the provision and maintenance of a safe and healthy environment within Hysan's portfolio for all staff, tenants, and members of the general public. The Head of the Property Services Division chairs a Safety Committee, which oversees how the Policy is delivered in daily operations and reports back to senior management. More than 1,560 hours of safety and health training were recorded by our staff members in 2017.

With reference to Community Contributions, Hysan is proud to maintain its strong association with the Lee Gardens Association, which it helped establish in 2016. In 2017, the Association's membership grew to include 16 members. Not only did the Association host a number of popular and exciting events in the Lee Gardens area, it also became a platform for area businesses to share views and engage with government departments and the local District Council. Art Fun in Causeway Bay Night Parade, "EGGssentially Art!" egglette festival, and Hong Kong Tennis Open's Lee Gardens Street Tennis were among the most popular events in the neighbourhood.

Hysan's Urban Farm remained one of Hong Kong's best-loved environmental attractions, with 16 local and international organisations visiting the rooftop facility in 2017. Over 300 urban farmers enjoyed sessions growing organic produce at Hysan Place, and around 400 children and parents participated in our Green Wonders programme to learn more about green building and urban farming.

Hysan became one of the sponsors for Hong Kong's best known international sporting events, Cathay Pacific/HSBC Rugby Sevens, and we hosted the event's Fan Walk, which was a major street carnival that lasted three days.

In the area of arts and culture promotion, the visit by Rachel Barton Pine, a top international violinist, was one of the highest profile performing arts events ever held at Hysan Place.

Other major artistic events in Lee Gardens included:

- Po Leung Kuk's celebration of Hong Kong SAR's 20th anniversary and the Kuk's Education Services 70th anniversary concert and performance
- Hong Kong Institute of Architects Biennale Foundation's Bi-City Biennale of Urbanism/Architecture
- Lee Hysan Foundation's "Sing Out" musical preview
- Food Angel's Construction

Our volunteer team contributed 424 hours of their time to services for the community in 2017. Another 288 hours were recorded as contributions by team members' friends and families, who also took part in Hysan's activities. Hysan was the winner of a Silver Award for Volunteer Service.

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2017, which were approved by the Board of Directors on 28 February 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2017 to be property investment, management, and development. Details of the Group's principal subsidiaries, associates and a joint venture as at 31 December 2017 are set out in notes 17 to 19 respectively to the consolidated financial statements.

The turnover and results of the Group are principally derived from the leasing of investment properties located in Hong Kong. The Group's turnover and results by operating segment are set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 119.

The first interim dividend of HK26 cents per share, amounting to approximately HK\$272 million, was paid to shareholders during the year.

The Board declared a second interim dividend of HK111 cents per share to the shareholders on the register of members on 15 March 2018, absorbing approximately HK\$1,161 million. The dividends declared and paid for ordinary shares in respect of the full year 2017 will absorb approximately HK\$1,433 million, and the balance of the profit will be retained.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and material attributable factors of the development and likely future developments of the Group's business, are provided throughout this Annual Report, particularly in the following separate sections:

- (a) Review of the Company's business – "Management's Discussion and Analysis";
- (b) The Company's risk management framework, the principal risks the Company is facing and the controls in place – "Risk Management and Internal Control Report";
- (c) Future development of the Company's business – "Key Facts" and "Chairman's Statement";
- (d) Analysis using financial key performance indicators – "Management's Discussion and Analysis";
- (e) Discussion of the Company's environmental policies and performance – "Corporate Responsibility Report – Summary";
- (f) Discussion of the Company's compliance with the relevant laws and regulations that have a significant impact on the Company – "Corporate Governance Report" and "Independent Auditor's Report"; and
- (g) An account of the Company's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends – "Directors' Report" and "Corporate Responsibility Report – Summary".

A detailed discussion of the Company's environmental policies and performance, its compliance with the relevant laws and regulations that have a significant impact on the Company and its key relationships with stakeholders is contained in the separate Corporate Responsibility Report 2017 available on the Company's website: www.hysan.com.hk.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 122 and 123 and note 30 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2017 using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

Details of the major investment properties of the Group as at 31 December 2017 are set out in the section under Schedule of Principal Properties of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and meets the requirements of the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Further information on the Company's corporate governance practices is set out in the following separate reports:

- (a) "Corporate Governance Report" (pages 66 to 85) – this gives detailed information on the Company's compliance with the Corporate Governance Code and the relevant laws and regulations, its adoption of local and international best practices, Directors' service contracts, Directors' interests in shares, contracts and competing business;
- (b) "Audit Committee Report" (pages 86 to 89) – this sets out the terms of reference, work performed and findings of the Audit Committee for the year;
- (c) "Remuneration Committee Report" (pages 90 to 97) – this gives detailed information on Directors' remuneration and interests (including information on Directors' compensation);
- (d) "Nomination Committee Report" (pages 98 to 99) – this sets out the terms of reference, work performed and findings of the Nomination Committee for the year;
- (e) "Strategy Committee Report" (page 100) – this sets out the terms of reference, work performed and findings of the Strategy Committee for the year; and
- (f) "Risk Management and Internal Control Report" (pages 50 to 57) – this sets out the Company's framework for risk assessment and internal control (including control environment, control activities and work done during the year).

Further information on the Company's corporate responsibility policies and practices is contained in the separate Corporate Responsibility Report 2017 available on the Company's website: www.hysan.com.hk.

THE BOARD

The Board is currently chaired by Lee Irene Yun-Lien, Chairman. There are 8 other Non-Executive Directors.

Lau Siu Chuen ceased as a Non-Executive Director with effect from the conclusion of the 2017 Annual General Meeting of the Company held on 15 May 2017.

Lee Irene Yun-Lien and Yang Chi Hsin Trevor served as alternate Directors to Lee Anthony Hsien Pin and Jebesen Hans Michael respectively throughout the year.

Save as otherwise mentioned above, other Directors whose names and biographies appear on pages 60 to 64 have been Directors of the Company throughout the year and up to the date of this report.

Under Article 114 of the Company's current Articles of Association ("Articles"), one-third (or such other number as may be required under applicable legislation) of the Directors; and where the applicable number is not an integral number, to be rounded upwards, who have been longest in office shall retire from office by rotation at each Annual General Meeting ("AGM"). A retiring Director is eligible for re-election.

Particulars of Directors seeking re-election at the forthcoming AGM are set out in the related circular to shareholders.

The Company received from each Independent Non-Executive Director an annual confirmation of his independence with regard to each of the factors referred to in Rule 3.13(1) to (8) of the Listing Rules, and the Company considered all of them to be independent. The Nomination Committee also reviewed Director independence in a meeting held in November 2017. (See "Corporate Governance Report" and "Nomination Committee Report".)

The names 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 are available on the Company's website: www.hysan.com.hk.

DIRECTORS' INTERESTS IN SHARES

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in "Corporate Governance Report" on pages 66 to 85.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2017, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of the total no. of issued shares (Note a)
Lee Hysan Estate Company, Limited	Beneficial owner and interests of a controlled corporation	433,130,735 (Note b)	41.42
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	41.42
Silchester International Investors LLP	Investment manager	95,187,000	9.10
First Eagle Investment Management, LLC	Investment manager	52,460,214	5.02

Notes:

- (a) The percentage was compiled based on the total number of issued shares of the Company as at 31 December 2017 (i.e. 1,045,824,891 ordinary shares).
- (b) These interests represented the same block of shares of the Company. 393,321,734 shares were held by Lee Hysan Estate Company, Limited ("LHE") and 39,809,001 shares were held by a subsidiary of LHE. LHE was a wholly-owned subsidiary of Lee Hysan Company Limited.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register that is required to be kept under section 336 of the SFO as at 31 December 2017.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business and which were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 36 to the consolidated financial statements.

Some of these transactions also constituted "Continuing Connected Transactions" under the Listing Rules, as identified below.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions which were subject to the notification and announcement requirements but exempt from the circular and shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules during the year (the "Transactions"). Details of the Transactions required to be disclosed are set out as follows:

I. Leases granted by the Group

(a) Lee Garden Two, 28 Yun Ping Road, Hong Kong ("Lee Garden Two")

The following lease arrangements were entered into by Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company and the property owner of Lee Garden Two, as landlord, with the following connected persons:

Connected person	Date of agreement	Term	Premises	Annual consideration (Note a)
(i) Jebsen and Company Limited (Note b)	28 March 2013 (Lease and Carpark Licence Agreement) (as amended – Note c)	5 years commencing from 1 September 2013 (Note d)	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2017: HK\$37,212,720 2018: HK\$25,065,304 (on pro-rata basis) (Note j)
(ii) Treasure Matrix Limited (Notes e & f)	(1) 28 March 2014 (Lease and Licence Agreements) (as amended – Notes g & i)	5 years commencing from 28 March 2014 (Note d)	Shop Nos. 308 & 311 on the 3rd Floor (connected to an outdoor garden)	2017: HK\$6,553,765 2018: HK\$8,804,400 2019: HK\$2,106,429 (on pro-rata basis) (Notes k & l)
	(2) 20 October 2014 (Existing Licence Agreement) (Notes h & i)	3 years commencing from 1 December 2014	Portion 1 on the 3rd Floor	
	(3) 27 March 2017 (New Licence Agreement to renew item (2)) (Notes h & i)	Renewed for a further 1 year, 3 months and 27 days commencing from 1 December 2017		
	(4) 20 October 2014 (Existing Licence Agreement) (Notes h & i)	3 years commencing from 1 November 2014	Various storerooms and advertising spaces	
	(5) 27 March 2017 (New Licence Agreement to renew item (4)) (Notes h & i)	Renewed for a further 1 year, 4 months and 27 days commencing from 1 November 2017		

CONTINUING CONNECTED TRANSACTIONS continued

I. Leases granted by the Group continued

(b) One Hysan Avenue, Causeway Bay, Hong Kong ("One Hysan Avenue")

The following lease arrangement was entered into by OHA Property Company Limited, a wholly-owned subsidiary of the Company and the property owner of One Hysan Avenue, as landlord, with Atlas Corporate Management Limited, a wholly-owned subsidiary of LHE, a substantial shareholder of the Company (holding a 41.42 % interest). Details of the lease are set out below:

Connected person	Date of agreement	Term	Premises	Annual consideration <i>(Note a)</i>
Atlas Corporate Management Limited	21 August 2014	3 years commencing from 1 November 2014	Whole of 21st Floor	2017: HK\$2,526,440 (on pro-rata basis) <i>(Note m)</i>

II. Provision of leasing and property management services to a non wholly-owned subsidiary regarding Lee Garden Two

(a) The following management agreement was entered into by Hysan Leasing Company Limited, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of leasing, marketing and lease administration services in respect of Lee Garden Two:

Connected person	Date of agreement	Term	Premises	Consideration received during the year
Barrowgate Limited	22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$27,122,283 <i>(Note n)</i>

(b) The following management agreement was entered into by Hysan Property Management Limited, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of property management services to Lee Garden Two:

Connected person	Date of agreement	Term	Premises	Consideration received during the year
Barrowgate Limited	22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$3,440,016 <i>(Note n)</i>

CONTINUING CONNECTED TRANSACTIONS *continued*

Notes:

- (a) The annual considerations were based on current rates of rental (including estimated turnover rent, where applicable), operating charges, (for retail premises) promotion levies and (for carparking spaces) licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges, promotion levies and licence fees (as the case may be) are payable monthly in advance.
- (b) Jebson and Company Limited (“Jebson and Company”) is a beneficial substantial shareholder of Barrowgate and has an equity interest of 10% in Barrowgate. Jebson Hans Michael, Non-Executive Director of the Company, is a controlling shareholder of Jebson and Company.
- (c) On 16 August 2016, a memorandum was entered into, pursuant to which the rent for the period from 1 September 2016 to 31 August 2018 was reviewed and revised to the then prevailing market rent.
- (d) The terms of the agreements mentioned under I(a)(i) and I(a)(ii)(1) above exceed 3 years. According to the Listing Rules requirement, an independent financial adviser to the Board was engaged in each case. It formed the view, in each case, that the term with duration longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.
- (e) Treasure Matrix Limited (“Treasure Matrix”) is a wholly-owned subsidiary of the Company.
- (f) Under this transaction, Barrowgate was considered a connected person of the Company under the Listing Rules by virtue of it being a non wholly-owned subsidiary of the Company and also having a substantial shareholder which is an associate of Jebson Hans Michael, Non-Executive Director of the Company.
- (g) On 27 March 2017, a memorandum was entered into, pursuant to which the rent for the period from 28 March 2017 to 27 March 2019 was reviewed and revised to the then prevailing market rent.
- (h) On 27 March 2017, new licence agreements were entered into to renew the existing licence agreements. The existing and new licence agreements on their own constituted continuing connected transactions of the Company which were fully exempted from Chapter 14A requirements as the annual consideration under the existing and new licence agreements fall below the applicable de minimis threshold under the Listing Rules.
- (i) As the aggregated annual consideration under the lease and various licence agreements entered into with Treasure Matrix exceeds the applicable de minimis threshold under the Listing Rules, they constituted continuing connected transactions of the Company being subject to announcement requirements but exempted from independent shareholders’ approval requirements.
- (j) Office monthly operating charges for Lee Garden Two were revised with effect from 1 January 2018.
- (k) Annual consideration for 2017 included actual turnover rent received for the year 2017.
- (l) Retail monthly operating charges and promotion levies for Lee Garden Two were revised with effect from 1 January 2017 and further revised on 1 January 2018.
- (m) Office extra air-conditioning operating charges for One Hysan Avenue were revised with effect from 1 January 2017.
- (n) These represent the actual consideration received for the year ended 31 December 2017, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

All the Transactions were entered in the ordinary and usual course of business of the respective companies within the Group after due negotiations on an arm’s length basis with reference to the prevailing market conditions.

Announcements were published regarding the Transactions in accordance with the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules insofar as they are applicable.

CONTINUING CONNECTED TRANSACTIONS continued

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 107 to 109 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Company's Internal Audit has reviewed the Transactions and the related internal control procedures, and concluded that the internal control procedures are adequate and effective. All Independent Non-Executive Directors of the Company have reviewed the Transactions and the report of the auditor and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted connected transactions which were subject to the notification and announcement requirements but exempt from the circular and shareholders' approval requirements under the Listing Rules during the year. Certain details of the transactions are set out as follows:

I. Acquisitions of No. 9 Lan Fong Road (the "Property") and the Remaining Portion of Inland Lot No. 29 (the "Land"), Hong Kong

On 17 March 2017, Jayton Investments Limited ("Jayton") and Oretta Limited ("Oretta"), both wholly-owned subsidiaries of the Company, entered into the following agreements:

- (1) Jayton entered into a conditional agreement with Dowling Development Ltd. ("Dowling Development"), a wholly-owned subsidiary of LHE to acquire the entire issued share capital of Sparkling Touch Investments Ltd., which owns the Property, for a consideration of HK\$75 million, with LHE guaranteeing the due and punctual performance of the obligations of Dowling Development; and
- (2) Oretta entered into an agreement with LHE to acquire the Land for a consideration of HK\$100.

Completion of the sale and purchase under the above agreements took place on 31 March 2017.

Dowling Development was dissolved on 2 January 2018. At the time of entering into the agreements, Dowling Development was a wholly-owned subsidiary of LHE, which in turn was interested in approximately 41.42% of the issued shares of the Company and was a substantial shareholder and connected person of the Company under the Listing Rules. The entering into of the agreements constituted connected transactions of the Company under Rule 14A.76(2) of the Listing Rules.

The abovementioned acquisitions are in line with the core business and strategic policy of the Group. Details of the acquisitions were disclosed in the Company's announcement dated 17 March 2017.

CONNECTED TRANSACTIONS continued

II. Project Financing

Gainwick Limited (“Gainwick”), a 60% -owned subsidiary undertaking (as defined in Schedule 1 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong)) of the Company, entered into a facility agreement with, among others, certain lenders (including Hang Seng Bank Limited (“Hang Seng”) and The Hongkong and Shanghai Banking Corporation Limited (“HSBC”)), pursuant to which the lenders agreed to severally provide to Gainwick their respective portion of the facility (with each of Hang Seng and HSBC providing a facility in the maximum amount of HK\$1,120 million (collectively the “Facilities”)) bearing non-refundable front end fee of 0.75% on the facility amount, and interest rate at sum of HIBOR and interest margin of 0.65% per annum of the relevant interest period.

Hang Seng holds approximately 24.64% equity interest in Barrowgate, a non wholly-owned subsidiary of the Company, and therefore is a substantial shareholder of Barrowgate. HSBC is the holding company of Hang Seng. Accordingly, both Hang Seng and HSBC are connected persons of the Company at the subsidiary level under the Listing Rules. The provisions of the Facilities constituted connected transactions of the Company under Rule 14A.101 of the Listing Rules.

The Facilities serve to finance the costs of land premium, construction cost and all related costs to be incurred for developing the residential sites at Tai Po Town Lot Nos. 223 and 229, Lo Fai Road, Tai Po, New Territories, Hong Kong. Details of the Facilities were disclosed in the Company’s announcement dated 26 May 2017.

INTEREST IN CONTRACTS OF SIGNIFICANCE

The lease and carpark licence agreement between Jebson and Company and Barrowgate is considered a contract of significance under paragraph 15 of Appendix 16 to the Listing Rules due to its annual consideration having a percentage ratio of 1.05% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.05% and 0.09% respectively). Details of the transaction are set out under I(a)(i) of “Continuing Connected Transactions”.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 24.73% of the aggregate amount of purchases were attributable to the Group’s 5 largest suppliers with the largest supplier accounting for 6.30% to the Group’s total purchases. The aggregate amount of turnover attributable to the Group’s 5 largest customers was less than 30% (being the Listing Rule disclosure threshold) of total turnover of the Group.

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company’s issued shares) had any interest in the Group’s 5 largest suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

ISSUANCE OF SECURITIES

In October 2017, Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, established the US\$1.5 billion Medium Term Note Programme (“MTN Programme”), which was listed on the Stock Exchange. Notes issued under the MTN Programme are unconditionally and irrevocably guaranteed by the Company. No notes have been issued under the MTN Programme for the year under review.

PUBLIC FLOAT

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

DONATIONS

During the year, the Group made donations of approximately HK\$0.5 million to charitable and non-profit-making organisations.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred by him or her in the execution the duties of his or her office or in relation thereto. The Directors and Officers Liability Insurance ("D&O Insurance") taken out by the Company throughout the year provides adequate cover for such indemnities to all the Directors of the Company and its subsidiaries. The relevant provisions in the Company's Articles and the D&O Insurance were in force during the financial year ended 31 December 2017 and as of the date of this report.

AUDITOR

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2018 AGM.

By Order of the Board
Lee Irene Yun-Lien
Chairman

Hong Kong, 28 February 2018

Financial Statements, Valuation and Other Information

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Directors' Responsibility for the Financial Statements

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

- (a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;
- (b) state the reasons for any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report

Deloitte.

德勤

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 119 to 181, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and financial risk management.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Key Audit Matters continued

Key audit matter

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to the inherent level of complex and subjective judgements and estimates required in determining the fair values.

The Group's investment property portfolio comprises retail, office and residential properties mainly located in Causeway Bay, Hong Kong and is stated at fair value of HK\$72,470 million, accounting for approximately 88% of the Group's total assets as at 31 December 2017 with a fair value gain of HK\$853 million recognised in the consolidated statement of profit or loss for the year then ended.

All of the Group's investment properties are measured using the fair value model based on a valuation performed by an independent qualified professional valuer (the "Valuer"). As disclosed in note 3 of the Notes to the Consolidated Financial Statements section of the consolidated financial statements, in determining the fair values of the Group's investment properties, the Valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates, reversionary income potential and redevelopment potential of the investment properties in determining the fair values.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of investment properties included:

- Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work and their terms of engagement;
- Evaluating the appropriateness of the Valuer's valuation approaches to assess if they meet the requirements of the HKFRSs and industry norms;
- Challenging the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industry in Hong Kong; and
- Obtaining the detailed work of the Valuer on selected investment properties to evaluate the accuracy and relevance of key data inputs underpinning the valuation, such as rental income, term of existing leases by comparing them to the existing leases summary of the Group or reversionary income potential by comparing fair market rents estimated by the Valuer against recent lease renewals and evaluating whether capitalisation rates adopted are comparable to the market.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible 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 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 judgment and maintain professional skepticism 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements continued

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

The engagement partner on the audit resulting in the independent auditor's report is Wong Wang Hei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 February 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 HK\$ million	2016 HK\$ million
Turnover	4	3,548	3,535
Property expenses		(449)	(428)
Gross profit		3,099	3,107
Other income	25	261	–
Investment income	6	69	50
Administrative expenses		(247)	(219)
Finance costs	7	(158)	(178)
Change in fair value of investment properties		853	(1,187)
Share of results of associates		220	237
Profit before taxation		4,097	1,810
Taxation	8	(484)	(463)
Profit for the year	9	3,613	1,347
Profit for the year attributable to:			
Owners of the Company		3,636	1,218
Non-controlling interests		(23)	129
		3,613	1,347
Earnings per share (expressed in HK cents)	14		
Basic		347.78	116.35
Diluted		347.68	116.33

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	2017 HK\$ million	2016 HK\$ million
Profit for the year		3,613	1,347
Other comprehensive income	10		
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Gains on revaluation of properties held for own use		38	18
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net adjustments to hedging reserve		(55)	78
Share of translation reserve of associates		240	(236)
		185	(158)
Other comprehensive income (expenses) for the year (net of tax)		223	(140)
Total comprehensive income for the year		3,836	1,207
Total comprehensive income attributable to:			
Owners of the Company		3,859	1,078
Non-controlling interests		(23)	129
		3,836	1,207

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK\$ million	2016 HK\$ million
Non-current assets			
Investment properties	15	72,470	69,633
Property, plant and equipment	16	751	720
Investments in associates	18	3,779	3,497
Loans to associates	18	10	–
Investment in a joint venture	19	147	145
Loans to a joint venture	19	982	873
Fund investment	20	21	–
Term notes	21	228	733
Other financial assets	22	2	13
Other receivables	23	332	135
		78,722	75,749
Current assets			
Loans to a joint venture	19	–	1,018
Accounts and other receivables	23	226	196
Term notes	21	509	422
Other financial assets	22	1	6
Time deposits	24	2,505	2,551
Cash and bank balances	24	157	79
		3,398	4,272
Current liabilities			
Accounts payable and accruals	25	736	935
Other financial liabilities	22	1	–
Rental deposits from tenants		389	339
Amounts due to non-controlling interests	26	327	327
Borrowings	27	150	1,180
Taxation payable		158	112
		1,761	2,893
Net current assets		1,637	1,379
Total assets less current liabilities		80,359	77,128
Non-current liabilities			
Borrowings	27	6,035	5,113
Other financial liabilities	22	30	1
Rental deposits from tenants		506	578
Deferred taxation	28	787	751
		7,358	6,443
Net assets		73,001	70,685
Capital and reserves			
Share capital	29	7,692	7,673
Reserves		62,261	59,817
Equity attributable to owners of the Company		69,953	67,490
Non-controlling interests		3,048	3,195
Total equity		73,001	70,685

The consolidated financial statements on pages 119 to 181 were approved and authorised for issue by the Board of Directors on 28 February 2018 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lee T.H. Michael
Director

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company		
	Share capital HK\$ million	Share options reserve HK\$ million	General reserve HK\$ million
At 1 January 2016	7,642	30	100
Profit for the year	–	–	–
Net gains arising from hedging instruments	–	–	–
Reclassification adjustments for net gains included in profit or loss	–	–	–
Gain on revaluation of properties held for own use	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 28)	–	–	–
Share of translation reserve of an associate	–	–	–
Total comprehensive income (expenses) for the year	–	–	–
Issue of shares under share option schemes	31	(7)	–
Recognition of equity-settled share-based payments	–	5	–
Forfeiture of share options	–	(4)	–
Cancellation upon repurchase of own shares	–	–	–
Dividends paid during the year (note 13)	–	–	–
At 31 December 2016	7,673	24	100
Profit for the year	–	–	–
Net losses arising from hedging instruments	–	–	–
Reclassification adjustments for net losses included in profit or loss	–	–	–
Gain on revaluation of properties held for own use	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 28)	–	–	–
Share of translation reserve of associates	–	–	–
Total comprehensive (expenses) income for the year	–	–	–
Issue of shares under share option schemes	19	(4)	–
Recognition of equity-settled share-based payments	–	4	–
Forfeiture of share options	–	(3)	–
Dividends paid during the year (note 13)	–	–	–
Deemed acquisition of additional equity interest in a subsidiary	–	–	(4)
At 31 December 2017	7,692	21	96

Attributable to owners of the Company								
Investments revaluation reserve HK\$ million	Hedging reserve HK\$ million	Properties revaluation reserve HK\$ million	Translation reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Non-controlling interests HK\$ million	Total HK\$ million	
1	(66)	353	274	59,838	68,172	3,196	71,368	
–	–	–	–	1,218	1,218	129	1,347	
–	77	–	–	–	77	–	77	
–	1	–	–	–	1	–	1	
–	–	22	–	–	22	–	22	
–	–	(4)	–	–	(4)	–	(4)	
–	–	–	(236)	–	(236)	–	(236)	
–	78	18	(236)	1,218	1,078	129	1,207	
–	–	–	–	–	24	–	24	
–	–	–	–	–	5	–	5	
–	–	–	–	4	–	–	–	
–	–	–	–	(395)	(395)	–	(395)	
–	–	–	–	(1,394)	(1,394)	(130)	(1,524)	
1	12	371	38	59,271	67,490	3,195	70,685	
–	–	–	–	3,636	3,636	(23)	3,613	
–	(49)	–	–	–	(49)	–	(49)	
–	(6)	–	–	–	(6)	–	(6)	
–	–	46	–	–	46	–	46	
–	–	(8)	–	–	(8)	–	(8)	
–	–	–	240	–	240	–	240	
–	(55)	38	240	3,636	3,859	(23)	3,836	
–	–	–	–	–	15	–	15	
–	–	–	–	–	4	–	4	
–	–	–	–	3	–	–	–	
–	–	–	–	(1,411)	(1,411)	(128)	(1,539)	
–	–	–	–	–	(4)	4	–	
1	(43)	409	278	61,499	69,953	3,048	73,001	

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Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK\$ million	2016 HK\$ million
Operating activities			
Profit before taxation		4,097	1,810
Adjustments for:			
Other income		(261)	–
Net interest income		(69)	(50)
Loss on disposal of property, plant and equipment		7	–
Share-based payment expenses		4	5
Finance costs		158	178
Change in fair value of investment properties		(853)	1,187
Depreciation of property, plant and equipment		22	22
Share of results of associates		(220)	(237)
Operating cash flows before movements in working capital		2,885	2,915
(Increase) decrease in accounts and other receivables		(12)	42
Increase in accounts payable and accruals		49	342
(Decrease) increase in rental deposits from tenants		(22)	27
Cash generated from operations		2,900	3,326
Hong Kong Profits Tax paid		(416)	(412)
Hong Kong Profits Tax refunded		6	5
Net cash from operating activities		2,490	2,919
Investing activities			
Payments in respect of additions of investment properties		(1,472)	(832)
Acquisition of investment properties through acquiring subsidiaries	31	(654)	–
Purchases of property, plant and equipment		(14)	(15)
Advance to associates		(10)	–
Dividends received from an associate		178	187
Advance to a joint venture		(63)	(2,036)
Repayment from a joint venture		998	–
Payment in respect of fund investment		(21)	–
Proceeds upon maturity of term notes		431	414
Purchases of term notes		–	(227)
Interest received		38	66
Additions to time deposits with original maturity over three months		(2,647)	(2,521)
Proceeds upon maturity of time deposits with original maturity over three months		3,282	3,478
Net cash from (used in) investing activities		46	(1,486)
Financing activities			
Interest paid		(194)	(182)
Payment of other finance costs		(19)	(1)
Medium Term Note Programme expenses		(2)	(2)
New bank loans	32	1,410	1,680
Repayment of bank loans	32	(1,540)	(250)
Consideration paid for repurchase of shares		–	(395)
Proceeds on exercise of share options		15	24
Dividends paid		(1,411)	(1,394)
Dividends paid to non-controlling interests of a subsidiary		(128)	(130)
Net cash used in financing activities		(1,869)	(650)
Net increase in cash and cash equivalents		667	783
Cash and cash equivalents at 1 January		1,367	584
Cash and cash equivalents at 31 December	24	2,034	1,367

Significant Accounting Policies

For the year ended 31 December 2017

These consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance (“CO”).

The principal accounting policies adopted are as follows:

1. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group’s equity attributable to owners of the Company therein.

Total comprehensive income and expenses of a subsidiary are attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of parties sharing control.

The results, assets and liabilities of associate or joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associate or joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associate or joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group’s share of losses of an associate or joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Significant Accounting Policies continued

For the year ended 31 December 2017

2. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE continued

The requirements of Hong Kong Accounting Standard (“HKAS”) 39 Financial Instrument: Recognition and Measurement are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in associate or joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate or joint venture, profits or losses resulting from the transactions with the associate or joint venture are recognised in the Group’s consolidated financial statements only to the extent of the interests in the associate or joint venture that are not related to the Group.

3. INVESTMENT PROPERTIES

Investment properties are properties held to earn rental and/or for capital appreciation including properties under redevelopment for such proposes.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under redevelopment are capitalised as part of the carrying amount of the investment properties under redevelopment. Investment properties under redevelopment are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under redevelopment and their carrying amount is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on revaluation of land and buildings is recognised in other comprehensive income and accumulated in the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment less their estimated residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

5. IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss, except for certain properties which are carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, except for certain properties which are carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

6. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(a) Classification of financial assets

Debt instruments and hybrid contracts that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at FVTPL on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost. Interest income is recognised in profit or loss and is included in the investment income as disclosed in note 6 of the Notes to the Consolidated Financial Statements section.

Significant Accounting Policies continued

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(a) Classification of financial assets continued

(ii) Financial assets at FVTPL

Financial assets at FVTPL include derivatives that are not designated and effective as hedging instruments, club debentures and fund investment.

Investments in equity instruments are classified as FVTPL, unless the Group designates such investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Debt instruments that do not meet the amortised cost criteria (see (a) above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses. Fair value is determined in the manner described in note 4 of the Financial Risk Management section.

The Group has not designated any debt instrument as at FVTPL or reclassified any debt instruments to or from FVTPL since the application of the 2010 version of the Hong Kong Financial Reporting Standard ("HKFRS") 9.

Interest income on debt instruments at FVTPL is included in the other gains or losses described above.

(b) Impairment of financial assets

Financial assets subsequently measured at amortised cost are assessed for indicators of impairment at the end of the reporting period. These financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after their initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all categories with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(c) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, except for a financial asset that is classified as FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

(a) Classification and measurement

Financial liabilities and equity instruments issued by a group entity are classified as financial liabilities or equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into (i) financial liabilities at FVTPL and (ii) other financial liabilities subsequently measured at amortised cost. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for financial liabilities, other than those financial liabilities at FVTPL, of which the interest expense is included in other gains or losses.

(ii) Financial liabilities at FVTPL

Financial liabilities at FVTPL, representing those as held for trading, comprise derivatives that are not designated and effective as hedging instruments.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

(iii) Financial liabilities at amortised cost

Financial liabilities (including accounts payable and accruals, amounts due to non-controlling interests and borrowings) are subsequently measured at amortised cost, using the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in finance costs as disclosed in note 7 of the Notes to the Consolidated Financial Statements section.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to repurchase the Company's own equity instruments is deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Significant Accounting Policies continued

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity instruments continued

(a) Classification and measurement continued

(v) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

(b) Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments and hedging

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 22 of the Notes to the Consolidated Financial Statements section.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments as cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Note 22 of the Notes to the Consolidated Financial Statements section sets out details of the fair values of the derivative instruments used for hedging purposes.

6. FINANCIAL INSTRUMENTS continued

Hedge accounting continued

(a) Cash flow hedges

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Upon discontinuation of the hedging relationship of a cash flow hedge, any cumulative gain or loss accumulated in hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

(b) Discontinuation of hedges

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

7. REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable.

Rental income is recognised on a straight-line basis over the term of the relevant lease. Turnover rent is recognised when earned.

Management fee income is recognised when services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset excluding financial assets at FVTPL is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

8. LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. For early termination of leases, surrender compensation from tenant is recognised in profit or loss only upon fulfilment of all conditions set out in the surrender agreement.

9. FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Significant Accounting Policies continued

For the year ended 31 December 2017

9. FOREIGN CURRENCIES continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve.

10. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

11. RETIREMENT BENEFIT COSTS

Payments to the Enhanced Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

12. TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interests in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

12. TAXATION continued

(b) Deferred tax continued

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property, such properties' value are presumed to be recovered through sale. Such a presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 Income Taxes (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

13. EQUITY-SETTLED SHARE-BASED PAYMENTS TRANSACTIONS

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

14. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

15. ACQUISITION OF SUBSIDIARIES NOT CONSTITUTING A BUSINESS

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets and liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Shareholder Information” section of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are property investment, management and development.

These consolidated financial statements are presented in Hong Kong dollars (“HKD”), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied all of the amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the Group’s financial year beginning on 1 January 2017. The adoption of these amendments to HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

Except for HKFRS 9, which has been partially adopted by the Group as stated below, the Group has not early applied the following new, revised and amendments to standards that have been issued but are not yet effective.

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ³
HKFRS 17	Insurance Contract ⁵
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments ³
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures ³
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ³

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, except for the 2010 version of HKFRS 9 and the new requirements for hedge accounting issued in 2013, which the Group has early adopted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

Except for the new HKFRSs mentioned below, the Directors of the Company anticipate that the application of these new standards, amendments and interpretations to HKFRSs will have no material impact on the Group’s accounting policies, results and financial position.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

continued

The application of HKFRS 9 (except for those sections that were early adopted by the Group) may result in changes in the Group’s accounting policies in respect of measuring debt instruments at fair value through other comprehensive income, if applicable, and recognition of impairment of financial assets at amortised cost by applying the expected credit loss model of HKFRS 9. Based on the financial instruments and business model of the Group as at 31 December 2017, the Directors of the Company anticipated that the application of HKFRS 9 will have no material impact on the results and financial position of the Group.

The Group currently considers refundable rental deposits received of HK\$895 million as at 31 December 2017 as obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of rental deposits may be adjusted to amortised cost upon application of HKFRS 16. Adjustments to refundable rental deposits received would be considered as advance lease payments from lessees. The Directors of the Company are in the process of assessing the impact on the application of HKFRS 16 in the foreseeable future.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in the “Significant Accounting Policies” section, the management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of investment properties

At the end of the reporting period, the Group’s investment properties are stated at fair value of HK\$72,470 million (2016: HK\$69,633 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential taking into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In relying on the valuation, management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

Fair value of financial instruments

Financial instruments, such as cross currency swap and foreign exchange derivatives, are carried in the Group’s consolidated statement of financial position at fair value, as disclosed in note 22 of the Notes to the Consolidated Financial Statements section. The management of the Group uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates. Most of the financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in the “Financial Risk Management” section.

4. TURNOVER

Turnover represents gross rental income from investment properties and management fee income for the year.

The Group’s principal activities are property investment, management and development, and its turnover and results are principally derived from investment properties located in Hong Kong.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

5. SEGMENT INFORMATION

Based on the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance, the Group's operating and reportable segments are as follows:

Retail segment – leasing of space and related facilities to a variety of retail and leisure operators

Office segment – leasing of high quality office space and related facilities

Residential segment – leasing of luxury residential properties and related facilities

Property development segment – development and sale of properties

In 2017, the Group's management began to monitor and review the operation of the Group's joint venture separately from other segments of the Group on a regular basis. Therefore, a separate operating and reportable segment is disclosed as property development. The figures for the year ended 31 December 2016 has been represented accordingly for comparative purpose.

Segment turnover and results

The following is an analysis of the Group's turnover and results by operating and reportable segment.

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Property Development HK\$ million	Consolidated HK\$ million
For the year ended 31 December 2017					
Turnover					
Gross rental income from investment properties	1,781	1,210	236	–	3,227
Management fee income	144	149	28	–	321
Segment revenue	1,925	1,359	264	–	3,548
Property expenses	(253)	(142)	(54)	–	(449)
Segment profit	1,672	1,217	210	–	3,099
Other income					261
Investment income					69
Administrative expenses					(247)
Finance costs					(158)
Change in fair value of investment properties					853
Share of results of associates					220
Profit before taxation					4,097
For the year ended 31 December 2016					
Turnover					
Gross rental income from investment properties	1,829	1,142	244	–	3,215
Management fee income	140	150	30	–	320
Segment revenue	1,969	1,292	274	–	3,535
Property expenses	(227)	(149)	(52)	–	(428)
Segment profit	1,742	1,143	222	–	3,107
Investment income					50
Administrative expenses					(219)
Finance costs					(178)
Change in fair value of investment properties					(1,187)
Share of results of an associate					237
Profit before taxation					1,810

5. SEGMENT INFORMATION *continued*

All of the segment turnover reported above is from external customers.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in the "Significant Accounting Policies" section. Segment profit represents the profit earned by each segment without allocation of other income, investment income, administrative expenses (including central administrative costs and Directors' salaries), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the chief operating decision maker of the Group for the purpose of resource allocation and performance assessment.

Segment assets

The following is an analysis of the Group's assets by operating and reportable segment.

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Property Development HK\$ million	Consolidated HK\$ million
As at 31 December 2017					
Segment assets	33,195	31,325	7,961	1,129	73,610
Investments in and loans to associates					3,789
Fund investment					21
Other assets					4,700
Consolidated assets					<u>82,120</u>
As at 31 December 2016					
Segment assets	33,089	23,833	7,859	2,036	66,817
Investment properties under redevelopment (<i>Note</i>)					4,860
Investment in an associate					3,497
Other assets					4,847
Consolidated assets					<u>80,021</u>

Segment assets represented the investment properties and accounts receivable of each segment and investment in and loans to a joint venture under property development segment without allocation of investment properties under redevelopment, property, plant and equipment, investments in and loans to associates, fund investment, term notes, other financial assets, other receivables, time deposits, cash and bank balances. This is the measure reported to the chief operating decision maker of the Group for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profit.

No segment liabilities analysis is presented as the Group's management monitors and manages all the liabilities on a group basis.

Other than the investment in an associate, which operates in the People's Republic of China (the "PRC") with carrying amounts of HK\$3,779 million (2016: HK\$3,497 million), all the Group's assets are located in Hong Kong.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

5. SEGMENT INFORMATION continued

Other segment information

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Property Development HK\$ million	Consolidated HK\$ million
For the year ended 31 December 2017					
Additions to non-current assets	172	22	7	–	201
Acquisition of investment properties through acquiring subsidiaries (<i>note 31</i>)	654	–	–	–	654
Additions to investment properties under redevelopment (<i>Note</i>)					1,129
					1,984
For the year ended 31 December 2016					
Additions to non-current assets	325	95	20	–	440
Additions to investment properties under redevelopment (<i>Note</i>)					570
					1,010

Note:

The investment properties under redevelopment were completed during the year ended 31 December 2017.

6. INVESTMENT INCOME

The following is an analysis of investment income:

	2017 HK\$ million	2016 HK\$ million
Financial assets measured at amortised cost	51	49
Reclassification of net (gain) losses from hedging reserve on financial instruments designated as cash flow hedges	(10)	1
Imputed interest income on interest-free loan to a joint venture	28	–
	69	50

7. FINANCE COSTS

	2017 HK\$ million	2016 HK\$ million
Finance costs comprise:		
Interest on unsecured bank loans	22	7
Interest on unsecured fixed rate notes	175	175
Total interest expenses	197	182
Other finance costs	7	4
Less: amounts capitalised (<i>Note</i>)	(51)	(14)
	153	172
Net exchange losses on borrowings	19	2
Reclassification of net (loss) gain from hedging reserve on financial instruments designated as cash flow hedges	(16)	2
Medium Term Note Programme expenses	2	2
	158	178

Note:

Interest expenses have been capitalised to investment properties under redevelopment at an average interest rate of 3.41 % (2016: 2.61 %) per annum.

8. TAXATION

	2017 HK\$ million	2016 HK\$ million
Current tax		
Hong Kong profits tax		
– current year	458	400
– overprovision in prior years	(2)	(1)
	456	399
Deferred tax (<i>note 28</i>)	28	64
	484	463

Hong Kong Profits Tax is calculated at 16.5 % of the estimated assessable profit for both years.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

8. TAXATION continued

The taxation for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2017 HK\$ million	2016 HK\$ million
Profit before taxation	4,097	1,810
Tax at Hong Kong Profits Tax rate of 16.5%	676	298
Tax effect of share of results of associates	(36)	(39)
Tax effect of expenses not deductible for tax purposes	245	284
Tax effect of income not taxable for tax purposes	(393)	(89)
Tax effect of estimated tax losses not recognised	18	11
Recognition of previously unrecognised tax losses	(24)	(1)
Overprovision in prior years	(2)	(1)
Taxation for the year	484	463

In addition to the amount charged to the consolidated statement of profit or loss, deferred tax relating to the revaluation of the Group's properties held for own use has been charged directly to properties valuation reserve (see note 28).

9. PROFIT FOR THE YEAR

	2017 HK\$ million	2016 HK\$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	3	3
Depreciation of property, plant and equipment	22	22
Gross rental income from investment properties including contingent rentals of HK\$48 million (2016: HK\$46 million)	(3,227)	(3,215)
Less:		
– Direct operating expenses arising from properties that generated rental income	400	410
– Direct operating expenses arising from properties that did not generate rental income	49	18
	(2,778)	(2,787)
Staff costs, comprising:		
– Directors' emoluments (<i>note 11</i>)	25	23
– Other staff costs including share-based payments of HK\$2 million (2016: HK\$3 million)	246	236
	271	259
Share of income tax of associates (included in share of results of associates)	94	101

10. OTHER COMPREHENSIVE INCOME

	2017 HK\$ million	2016 HK\$ million
Other comprehensive income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	46	22
Deferred taxation arising on revaluation	(8)	(4)
	38	18
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net (losses) gains arising during the year	(49)	77
Reclassification adjustments for net (losses) gains included in profit or loss	(6)	1
	(55)	78
Share of translation reserve of associates	240	(236)
	185	(158)
Other comprehensive income (expenses) for the year (net of tax)	223	(140)

Tax effect relating to other comprehensive income (expenses):

	2017			2016		
	Before-tax amount HK\$ million	Tax expense HK\$ million	Net-of-tax amount HK\$ million	Before-tax amount HK\$ million	Tax expense HK\$ million	Net-of-tax amount HK\$ million
Gains on revaluation of properties held for own use	46	(8)	38	22	(4)	18
Net adjustments to hedging reserve	(55)	–	(55)	78	–	78
Share of translation reserve of associates	240	–	240	(236)	–	(236)
	231	(8)	223	(136)	(4)	(140)

11. DIRECTORS' EMOLUMENTS

	2017 HK\$ million	2016 HK\$ million
Directors' fees	3	2
Other emoluments		
Basic salaries, housing and other allowances	7	8
Bonus (<i>Notes d & f</i>)	13	11
Share-based payments	2	2
	25	23

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2017 and 2016, calculated with reference to their employment as Directors of the Company or for provision of other services to the Company and the Group, are set out below:

	Directors' fees HK\$'000 (Note e)	Basic salaries, housing and other allowances HK\$'000 (Note d)	Bonus HK\$'000 (Note d)	Share-based payments HK\$'000 (Note g)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
For the year ended 31 December 2017						
Executive Director (Note a)						
Lee Irene Yun-Lien	–	7,103	13,150	1,872	18	22,143
Non-Executive Directors (Note b)						
Jebsen Hans Michael	255	–	–	–	–	255
Lee Anthony Hsien Pin	295	–	–	–	–	295
Lee Chien	275	–	–	–	–	275
Lee Tze Hau Michael	265	–	–	–	–	265
Lau Siu Chuen (Note h)	83	–	–	–	–	83
Independent Non-Executive Directors (Note c)						
Churhouse Frederick Peter	295	–	–	–	–	295
Fan Yan Hok Philip	405	–	–	–	–	405
Lau Lawrence Juen-Yee	245	–	–	–	–	245
Poon Chung Yin Joseph (Note i)	446	–	–	–	–	446
	2,564	7,103	13,150	1,872	18	24,707
For the year ended 31 December 2016						
Executive Director (Note a)						
Lee Irene Yun-Lien	–	5,083	10,543	2,298	18	17,942
Non-Executive Directors (Note b)						
Jebsen Hans Michael (Note j)	232	–	–	–	–	232
Lau Siu Chuen (Note k)	93	2,969	–	(726)	12	2,348
Lee Anthony Hsien Pin	280	–	–	–	–	280
Lee Chien	260	–	–	–	–	260
Lee Tze Hau Michael	254	–	–	–	–	254
Independent Non-Executive Directors (Note c)						
Allen Nicholas Charles (Note l)	132	–	–	–	–	132
Churhouse Frederick Peter	280	–	–	–	–	280
Fan Yan Hok Philip	385	–	–	–	–	385
Lau Lawrence Juen-Yee (Note m)	227	–	–	–	–	227
Poon Chung Yin Joseph (Note n)	359	–	–	–	–	359
	2,502	8,052	10,543	1,572	30	22,699

11. DIRECTORS' EMOLUMENTS *continued*

Notes:

- (a) The Executive Director's emoluments shown above were for the services in connection with the management of the affairs of the Company and the Group.
- (b) The Non-Executive Directors' emoluments shown above were for the services as Directors of the Company.
- (c) The Independent Non-Executive Directors' emoluments shown above were for the services as Directors of the Company.
- (d) Year 2017:

The Remuneration Committee met in February 2017 to approve the 2017 annual fixed base salary and the annual special fee and determine the 2016 performance-based bonus of the Company's Executive Director.

The annual cash compensations of Lee Irene Yun-Lien, Chairman, was revised to HK\$15,386,000 based on market benchmark, and the jobholder's experience, qualification, and performance. Annual base salary of Lee Irene Yun-Lien remained unchanged at HK\$5,129,000 and annual special fee in recognition of extra responsibilities she assumed was HK\$2,564,000 (making up 50% of the total package).

For the year ended 31 December 2017, the bonus of HK\$13,150,000 represented the 2017 bonus of HK\$12,693,000 approved by the Committee in February 2018, and adjustments for 2016 bonus accrued in 2016. The performance-based bonus for 2016 approved by the Committee and paid to Executive Director in March 2017 was amounted to HK\$10,257,000.

- (e) Last revision of annual Directors' fees for serving on the Board and certain of its Committees (effective 1 June 2016) were approved by shareholders at the 2016 AGM. Details are set out in Remuneration Committee Report.

Directors' fees are calculated on annual basis and paid semi-annually. For Directors not having served the full year on a position, the fees will be calculated and paid on pro rata basis.

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2017 is set out below:

	Board HK\$'000	Audit Committee HK\$'000	Remuneration Committee HK\$'000	Strategy Committee HK\$'000	Nomination Committee HK\$'000	2017 Total HK\$'000	2016 Total HK\$'000
Executive Director							
Lee Irene Yun-Lien	–	–	–	–	–	–	–
Non-Executive Directors							
Jebsen Hans Michael (<i>Note j</i>)	225	–	–	30	–	255	232
Lee Anthony Hsien Pin	225	70	–	–	–	295	280
Lee Chien	225	–	–	30	20	275	260
Lee Tze Hau Michael	225	–	40	–	–	265	254
Lau Siu Chuen (<i>Notes h and k</i>)	83	–	–	–	–	83	93
Independent Non-Executive Directors							
Allen Nicholas Charles (<i>Note l</i>)	–	–	–	–	–	–	132
Churchouse Frederick Peter	225	70	–	–	–	295	280
Fan Yan Hok Philip	225	70	60	30	20	405	385
Lau Lawrence Juen-Yee (<i>Note m</i>)	225	–	–	–	20	245	227
Poon Chung Yin Joseph (<i>Notes i and n</i>)	225	135	40	26	20	446	359
	1,883	345	140	116	80	2,564	2,502

- (f) Year 2016:

The Remuneration Committee met in March 2016 to approve the 2016 annual fixed base salary and determine the 2015 performance-based bonus of the Company's Executive Directors.

The annual cash compensations of Lee Irene Yun-Lien, Chairman, and Lau Siu Chuen, then Deputy Chairman and Chief Executive Officer, were revised to HK\$10,257,000 and HK\$11,108,000 respectively, based on market benchmark, and the jobholder's experience, qualification, and performance. Annual base salaries of Lee Irene Yun-Lien and Lau Siu Chuen revised to HK\$5,129,000 and HK\$5,554,000 (making up 50% of the total package) respectively.

For the year ended 31 December 2016, the bonus figures of HK\$10,543,000 represented the 2016 target bonus figures of HK\$9,800,000 pending finalised by the Committee after year-end in February 2017, and included adjustments for 2015 bonus accrued in 2015 (following finalisation of bonus by the Committee in March 2016). The performance-based bonus for 2015 approved by the Committee and paid to Executive Directors in March 2016 was amounted to HK\$13,443,000.

- (g) Share-based payments are the fair values of share options granted to Executive Directors, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive Directors exercise the share options or not during the year. Details of the share option schemes are set out in note 38 of the Notes to the Consolidated Financial Statements section.
- (h) Lau Siu Chuen ceased as a Non-Executive Director with effect from the conclusion of the 2017 AGM.
- (i) Poon Chung Yin Joseph was appointed as a member of the Strategy Committee with effect from 22 February 2017.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS continued

Notes: continued

- (j) Jebsen Hans Michael was appointed a member of the Strategy Committee with effect from the conclusion of the 2016 AGM.
- (k) Lau Siu Chuen stepped down as Deputy Chairman and Chief Executive Officer. He was re-designated as Non-Executive Director and ceased to be a member of the Strategy Committee with effect from the conclusion of the August 2016 Board Meeting.
- (l) Allen Nicholas Charles retired as Independent Non-Executive Director, the chairman of the Audit Committee, a member of the Nomination Committee and a member of the Strategy Committee with effect from the conclusion of the 2016 AGM.
- (m) Lau Lawrence Juen-Yee was appointed a member of the Nomination Committee with effect from the conclusion of the 2016 AGM.
- (n) Poon Chung Yin Joseph was appointed the chairman of the Audit Committee with effect from the conclusion of the 2016 AGM.

There was no arrangement under which a Director waived or agreed to waive any remuneration during both years.

There was no payment to a Director as inducement for Director to join the Group or compensation for the loss of office as a Director in connection with the management of the affairs of any member of the Group during both years.

Details of material interests of the Directors of the Company in transactions, arrangements or contracts entered into by subsidiaries of the Company are disclosed in the Directors' Report.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2016: two) was Director of the Company, details of whose emoluments are included in note 11 of the Notes to the Consolidated Financial Statements section. The emoluments of all of the five individuals with the highest emoluments for the years ended 31 December 2017 and 2016 were as follows:

	2017 HK\$ million	2016 HK\$ million
Basic salaries, housing and other allowances	20	17
Bonus	17	16
Share-based payments (<i>Note</i>)	3	2
	40	35

Note:

Share-based payments are the fair values of share options granted to Executive Director and eligible employees, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive Director or eligible employees exercise the share options or not during the year.

Their emoluments are within the following bands:

	Number of individuals	
	2017	2016
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	3	3
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$17,500,001 to HK\$18,000,000	–	1
HK\$22,000,001 to HK\$22,500,000	1	–
	5	5

Senior management (for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules")) during the year are Executive Director and other members of senior management of the Group. Their emoluments are within the following bands.

	Number of individuals	
	2017	2016
Nil to HK\$1,000,000	–	1
HK\$2,000,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$4,000,000	–	2
HK\$4,000,001 to HK\$5,000,000	5	2
HK\$17,000,001 to HK\$18,000,000	–	1
HK\$22,000,001 to HK\$23,000,000	1	–
	6	7

13. DIVIDENDS

(a) Dividends recognised as distribution during the year:

	2017 HK\$ million	2016 HK\$ million
2017 first interim dividend paid – HK26 cents per share	272	–
2016 first interim dividend paid – HK26 cents per share	–	272
2016 second interim dividend paid – HK109 cents per share	1,139	–
2015 second interim dividend paid – HK107 cents per share	–	1,122
	1,411	1,394

(b) Dividends declared after the end of the reporting period:

	2017 HK\$ million	2016 HK\$ million
Second interim dividend (in lieu of a final dividend) – HK111 cents per share (2016: HK109 cents per share)	1,161	1,139

The second interim dividend is not recognised as a liability as at 31 December 2017 because it has been declared after the end of the reporting period. Such dividend will be accounted for as an appropriation of the retained profits in the year ending 31 December 2018.

The declared second interim dividend will be payable in cash.

14. EARNINGS PER SHARE

(a) Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Earnings	
	2017 HK\$ million	2016 HK\$ million
Earnings for the purposes of basic and diluted earnings per share: Profit for the year attributable to owners of the Company	3,636	1,218
	Number of shares	
	2017	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,045,495,841	1,046,870,824
Effect of dilutive potential ordinary shares: Share options issued by the Company	283,181	170,710
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,045,779,022	1,047,041,534

In both years, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options are higher than the average market price for shares.

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14. EARNINGS PER SHARE continued

(b) Adjusted basic earnings per share

For the purpose of assessing the performance of the Group's principal activities (i.e. leasing of investment properties), the management is of the view that the profit for the year attributable to the owners of the Company should be adjusted in the calculation of basic earnings per share as follows:

	2017		2016	
	Profit HK\$ million	Basic earnings per share HK cents	Profit HK\$ million	Basic earnings per share HK cents
Profit for the year attributable to owners of the Company	3,636	347.78	1,218	116.35
Change in fair value of investment properties	(853)	(81.59)	1,187	113.39
Effect of non-controlling interests' shares	(253)	(24.20)	(30)	(2.87)
Share of change in fair value of investment properties (net of deferred taxation) of associates	(11)	(1.05)	(6)	(0.58)
Imputed interest income on interest-free loan to a joint venture	(28)	(2.68)	–	–
Underlying Profit	2,491	238.26	2,369	226.29
One-off early surrender compensation income (net of effect of taxation and non-controlling interests' shares)	(142)	(13.58)	–	–
Recurring Underlying Profit	2,349	224.68	2,369	226.29

Notes:

- Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature. As there were no such adjustments in 2016, the Recurring Underlying Profit was the same as the Underlying Profit.
- The denominators used in calculating the adjusted earnings per share are the same as those detailed above for basic earnings per share.

15. INVESTMENT PROPERTIES

	2017 HK\$ million	2016 HK\$ million
Fair Value		
At 1 January	69,633	69,810
Additions	1,330	1,010
Acquisition of investment properties through acquiring subsidiaries (note 31)	654	–
Change in fair value recognised in profit or loss – unrealised	853	(1,187)
At 31 December	72,470	69,633

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

15. INVESTMENT PROPERTIES *continued*

Fair value measurements and valuation processes

The fair value of the Group's investment properties at 31 December 2017 and 2016 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's investment properties have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the investment properties, the management of the Group has considered the highest and best use of the investment properties.

The value of the completed investment properties is derived from the basis of capitalisation of net income with due allowance for the reversionary income and redevelopment potential, where appropriate.

There has been no change to the valuation technique during the year for completed properties.

For investment properties under redevelopment as at 31 December 2016, residual method of valuation was adopted. The value is based on the redevelopment potential of the properties as if they were completed in accordance with the existing redevelopment proposal at the date of valuation. The value has also taken into consideration all costs of redevelopment and allowance of profit required for the redevelopment, which duly reflected the risks associated with the redevelopment.

All of the fair value measurements of the Group's investment properties were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out as below.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

Fair value measurements using significant unobservable inputs (Level 3)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of the Group's investment properties by operating and reportable segment.

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Investment properties under redevelopment HK\$ million	Total HK\$ million
At 1 January 2016	34,230	23,110	7,833	4,637	69,810
Additions	325	95	20	570	1,010
Change in fair value recognised in profit or loss – unrealised	(1,473)	627	6	(347)	(1,187)
At 31 December 2016	33,082	23,832	7,859	4,860	69,633
Additions	172	22	7	1,129	1,330
Acquisition of investment properties through acquiring subsidiaries	654	–	–	–	654
Change in fair value recognised in profit or loss – unrealised	(1,994)	1,773	91	983	853
Transfer upon completion	1,274	5,698	–	(6,972)	–
At 31 December 2017	33,188	31,325	7,957	–	72,470

Notes to the Consolidated Financial Statements continued

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15. INVESTMENT PROPERTIES continued

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair values for investment properties by operating and reportable segment and unobservable inputs used in the valuation models.

Description	Fair value as at 31 December		Valuation techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
	2017 HK\$ million	2016 HK\$ million				
Retail	33,188	33,082	Income capitalisation approach	(i) Capitalisation rate	5.00% – 5.25% (2016: 5.00% – 5.25%)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$132 per square foot (2016: HK\$143 per square foot)	The higher the market rent, the higher the fair value.
Office	31,325	23,832	Income capitalisation approach	(i) Capitalisation rate	4.25% – 5.00% (2016: 4.25% – 5.00%)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$54 per square foot (2016: HK\$50 per square foot)	The higher the market rent, the higher the fair value.
Residential	7,957	7,859	Income capitalisation approach	(i) Capitalisation rate	3.75% (2016: 3.75%)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$36 per square foot (2016: HK\$35 per square foot)	The higher the market rent, the higher the fair value.
Investment properties under redevelopment (Note)	–	4,860	Residual method	(i) Capitalisation rate	– (2016: 4.25% – 5.00%)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	– (2016: HK\$76 per square foot)	The higher the market rent, the higher the fair value.

Note:

The investment properties under redevelopment were completed during the year ended 31 December 2017.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK\$ million (Note)	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
COST OR VALUATION					
At 1 January 2016	666	113	49	2	830
Additions	–	4	11	–	15
Disposals	–	(1)	–	–	(1)
Surplus on revaluation	16	–	–	–	16
At 31 December 2016	682	116	60	2	860
Additions	–	3	11	–	14
Disposals	–	(20)	(1)	–	(21)
Surplus on revaluation	40	–	–	–	40
At 31 December 2017	722	99	70	2	893
Comprising:					
At cost	–	99	70	2	171
At valuation 2017	722	–	–	–	722
	722	99	70	2	893
ACCUMULATED DEPRECIATION					
At 1 January 2016	–	84	40	1	125
Provided for the year	6	12	4	–	22
Eliminated on disposals	–	(1)	–	–	(1)
Eliminated on revaluation	(6)	–	–	–	(6)
At 31 December 2016	–	95	44	1	140
Provided for the year	6	10	6	–	22
Eliminated on disposals	–	(13)	(1)	–	(14)
Eliminated on revaluation	(6)	–	–	–	(6)
At 31 December 2017	–	92	49	1	142
CARRYING AMOUNTS					
At 31 December 2017	722	7	21	1	751
At 31 December 2016	682	21	16	1	720

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For the year ended 31 December 2017

16. PROPERTY, PLANT AND EQUIPMENT continued

The above items of property, plant and equipment are depreciated on a straight-line basis over the following terms or at the following rates per annum:

Leasehold land and buildings	Over the term of the lease or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

Note:

Fair value measurements and valuation processes

The fair value of the Group's leasehold land and buildings in Hong Kong at 31 December 2017 and 2016 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's leasehold land and buildings in Hong Kong have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the properties, the management of the Group has considered the highest and best use of the properties. The value was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential. There has been no change to the valuation technique during the year.

All of the fair value measurements of the Group's leasehold land and buildings in Hong Kong were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out as below.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair values for the Group's leasehold land and buildings in Hong Kong and unobservable inputs used in the valuation models.

Description	Fair value as at 31 December		Valuation techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
	2017 HK\$ million	2016 HK\$ million				
Leasehold land and buildings in Hong Kong	722	682	Income capitalisation approach	(i) Capitalisation rate	4.25% – 5.25% (2016: 4.25% – 5.25%)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$62 per square foot (2016: HK\$58 per square foot)	The higher the market rent, the higher the fair value.

The gains of HK\$46 million (2016: HK\$22 million) arising on revaluation have been recognised in other comprehensive income and accumulated in properties revaluation reserve.

Had the Group's land and buildings been measured on at historical cost less subsequent accumulated depreciation, their carrying amounts would have been HK\$243 million (2016: HK\$249 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$34 million (2016: HK\$33 million) and accumulated depreciation of HK\$29 million (2016: HK\$27 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$2 million (2016: HK\$2 million).

17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the principal subsidiaries of the Company at 31 December 2017 and 2016:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of ownership interests/ voting rights held by the Company		Principal activities
			directly	indirectly	
Admore Investments Limited	Hong Kong	HK\$2	100 %	–	Investment holding
HD Treasury Limited	Hong Kong	HK\$2	100 %	–	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US\$1	100 %	–	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK\$1	100 %	–	Investment holding
Hysan Corporate Services Limited	Hong Kong	HK\$2	100 %	–	Provision of corporate services
Hysan Leasing Company Limited	Hong Kong	HK\$2	100 %	–	Leasing administration
Hysan Property Management Limited	Hong Kong	HK\$2	100 %	–	Property management
Hysan Treasury Limited	Hong Kong	HK\$2	100 %	–	Treasury operation
Kwong Hup Holding Limited	British Virgin Islands	HK\$1	100 %	–	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK\$1,000	100 %	–	Property investment
Minsal Limited	Hong Kong	HK\$2	100 %	–	Property investment
Mondsee Limited	Hong Kong	HK\$2	100 %	–	Property investment
Stangard Limited	Hong Kong	HK\$300,000	100 %	–	Provision of security services
Alpha Ace Limited	Hong Kong	HK\$1	–	100 %	Property development
Bamboo Grove Recreational Services Limited	Hong Kong	HK\$2	–	100 %	Resident club management
Earn Extra Investments Limited	Hong Kong	HK\$1	–	100 %	Property investment
HD Investment Limited	British Virgin Islands	HK\$1	–	100 %	Investment holding
Lee Theatre Realty Limited	Hong Kong	HK\$10	–	100 %	Property investment
Leighton Property Company Limited	Hong Kong	HK\$2	–	100 %	Property investment
Main Rise Development Limited	Hong Kong	HK\$2	–	100 %	Investment holding
Mariner Bay Limited	British Virgin Islands/ Hong Kong	US\$1	–	100 %	Investment holding
OHA Property Company Limited	Hong Kong	HK\$2	–	100 %	Property investment
Perfect Win Properties Limited	Hong Kong	HK\$2	–	100 %	Property investment
Silver Nicety Company Limited	Hong Kong	HK\$20	–	100 %	Property investment
Barrowgate Limited	Hong Kong	HK\$10,000	–	65.36 %	Property investment

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets or liabilities or otherwise are operating subsidiaries of the Group. Other than unsecured fixed rate notes issued by Hysan (MTN) Limited (“Hysan MTN”) as disclosed in note 27 of the Notes to the Consolidated Financial Statements section, none of the subsidiaries had issued any debt securities at the end of the reporting period.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY continued

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Barrowgate Limited

	2017 HK\$ million	2016 HK\$ million
Current assets	699	714
Non-current assets	9,427	10,123
Current liabilities	(1,160)	(1,418)
Non-current liabilities	(166)	(187)
Equity attributable to owners of the Company	5,752	6,034
Non-controlling interests	3,048	3,198
Turnover	628	645
(Loss) profit and total comprehensive (expenses) income for the year	(62)	379
(Loss) profit and total comprehensive (expenses) income attributable to owner of the Company	(40)	248
(Loss) profit and total comprehensive (expenses) income attributable to the non-controlling interests	(22)	131
Dividends paid to non-controlling interests	128	130
Net cash inflows from operating activities	400	823
Net cash outflows from investing activities	(571)	(9)
Cash outflows from financing activities	(370)	(375)
Net cash (outflows) inflows	(541)	439

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES

	2017 HK\$ million	2016 HK\$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,777	3,495
	3,779	3,497
Loans to associates classified as:		
Non-current assets	10	–

The balances of loans to associates are unsecured, interest-free and have no fixed repayment terms. The Directors of the Company are of the opinion that the Group will not demand repayment from the associates within the next twelve months from the end of the reporting period and the loans are therefore classified as non-current assets.

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES *continued*

The Directors of the Company are of the opinion that a complete list of all associates will be of excessive length and the Group summarises details of the Group's material associate at 31 December 2017 and 2016 as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
Country Link Enterprises Limited (<i>Note</i>)	Private limited company	Hong Kong	Ordinary share of HK\$5,000,000	26.3%	Investment holding
Shanghai Kong Hui Property Development Co., Ltd. (<i>Note</i>)	Sino-Foreign equity joint venture	The PRC	US\$165,000,000 [#]	24.7%	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd. (<i>Note</i>)	Sino-Foreign equity joint venture	The PRC	US\$140,000 [#]	23.7%	Property management

[#] Fully paid-up registered capital

Note:

Shanghai Kong Hui Property Development Co., Ltd. and Shanghai Grand Gateway Plaza Property Management Co., Ltd. are non-wholly owned subsidiaries of Country Link Enterprises Limited, together known as "Country Link".

The summarised consolidated financial information in respect of the Group's material associate is set out below. The summarised consolidated financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with HKFRSs. The associates are accounted for using the equity method in the Group's consolidated financial statements.

Country Link

	2017 HK\$ million	2016 HK\$ million
Current assets	2,179	2,241
Non-current assets	18,328	16,556
Current liabilities	(991)	(1,052)
Non-current liabilities	(4,234)	(3,613)
Turnover	1,432	1,571
Profit for the year	897	967
Other comprehensive income (expenses) for the year	974	(954)
Total comprehensive income for the year	1,871	13
Group's share of results of an associate for the year	220	237
Group's share of other comprehensive income of an associate for the year	240	(236)
Dividends received from the associate during the year	178	187

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES continued

Country Link continued

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in the associate that is material to the Group recognised in the consolidated financial statements:

	2017 HK\$ million	2016 HK\$ million
Net assets of the associate	15,282	14,132
Non-controlling interests of the associate	(901)	(829)
Net assets of the associate after deducting non-controlling interests of the associate	14,381	13,303
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	3,784	3,500
Others	(5)	(3)
Carrying amount of the Group's interest in the associate	3,779	3,497

19. INVESTMENT IN A JOINT VENTURE AND LOAN TO A JOINT VENTURE

Details of the Group's investment in and loans to a joint venture are as follow:

	2017 HK\$ million	2016 HK\$ million
Investment in a joint venture		
Unlisted shares, at cost	–	–
Deemed capital contribution in a joint venture (<i>Note a</i>)	147	145
	147	145
Loans to a joint venture classified as:		
Current assets	–	1,018
Non-current assets (<i>Note b</i>)	982	873
	982	1,891

Notes:

- (a) The deemed capital contribution in a joint venture represents the fair value adjustments in relation to the loan to a joint venture at initial recognition based on the estimated timing on future cash flows.
- (b) The loans to a joint venture are unsecured and have no fixed repayment terms. As at 31 December 2017, except for the loans to a joint venture with aggregate carrying amounts of HK\$63 million (2016: nil) which are carrying variable rates ranging from 2.36% to 3.00% per annum, the remaining loan to a joint venture of the Group is interest-free. The Directors are of the opinion that the Group will not demand repayment of the loan from the joint venture within the next twelve months from the end of the reporting period and the loans are therefore classified as non-current assets. The effective interest rate for imputed interest income on the interest-free portion is determined based on the cost of fund of the borrower per annum.

19. INVESTMENT IN A JOINT VENTURE AND LOAN TO A JOINT VENTURE continued

Details of the Group's joint venture at 31 December 2017 and 2016 are as follows:

Name of joint venture	Place of incorporation and operation	Class of share held	Effective ownership interest and voting rights held by the Group	Principal activities
Strongbod Limited (<i>Note a</i>)	British Virgin Islands	Ordinary shares of US\$10	60% (<i>Note b</i>)	Investment holding
Gainwick Limited (<i>Note a</i>)	Hong Kong	Ordinary share of HK\$1	60% (<i>Note b</i>)	Property development and investment

Notes:

- (a) Gainwick Limited is a wholly owned subsidiary of Strongbod Limited, together known as "Strongbod".
- (b) Pursuant to the shareholder's agreement dated 5 December 2016, entered into by the Group, the joint venture partner and Strongbod, decisions on all relevant business and operation activities of Strongbod require unanimous board approval from Directors of Strongbod appointed by the Group and those appointed by the joint venture partner. Therefore, the Group recognised the investment in Strongbod as a joint venture.

The summarised consolidated financial information in respect of the Group's material joint venture is set out below. The summarised consolidated financial information below represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with HKFRSs. The joint venture is accounted for using the equity method in the Group's consolidated financial statements. There was no share of post-acquisition profits and other comprehensive income in both years.

Strongbod

	2017 HK\$ million	2016 HK\$ million
Current assets	23	–
Non-current assets	3,490	3,393
Current liabilities	11	1,696
Non-current liabilities	3,502	1,697

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in the joint venture that is material to the Group recognised in the consolidated financial statements:

	2017 HK\$ million	2016 HK\$ million
Net assets of the joint venture	–	–
Proportion of the Group's ownership interest in the joint venture	60%	60%
Group's share of net assets of the joint venture	–	–
Add: Deemed capital contribution in the joint venture	147	145
Carrying amount of the Group's interest in the joint venture	147	145

20. FUND INVESTMENT

The balance represents the Group's interest in a fund investment as limited partner. The fund investment will engage in property investment in Hong Kong and overseas projects. The fund investment is classified as fair value through profit or loss ("FVTPL").

Notes to the Consolidated Financial Statements continued

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21. TERM NOTES

	2017 HK\$ million	2016 HK\$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	604	817
– Debt securities listed in overseas	102	187
– Unlisted debt securities	31	151
Total	737	1,155
Analysed for reporting purposes as:		
Current assets	509	422
Non-current assets	228	733
Total	737	1,155

As at 31 December 2017, the effective yield of the debt securities ranged from 1.81 % to 2.60 % (2016: 1.81 % to 3.27 %) per annum, payable quarterly, semi-annually or annually, and the securities will mature from January 2018 to July 2019 (2016: from January 2017 to July 2019). At the end of the reporting period, none of these assets were past due but not impaired.

22. OTHER FINANCIAL ASSETS/LIABILITIES

	Current		Non-current	
	2017 HK\$ million	2016 HK\$ million	2017 HK\$ million	2016 HK\$ million
Other financial assets				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	1	6	1	1
– Cross currency swap	–	–	–	11
	1	6	1	12
Financial assets measured at FVTPL:				
Club debenture	–	–	1	1
Total	1	6	2	13
Other financial liabilities				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	1	–	–	1
– Cross currency swap	–	–	30	–
Total	1	–	30	1

22. OTHER FINANCIAL ASSETS/LIABILITIES *continued*

(a) Cash flow hedges

(i) Foreign currency risk

During the year, the Group used forward foreign exchange contracts and cross currency swap to manage its foreign currency exposure. The principal terms of the forward foreign exchange contracts and cross currency swap have been negotiated to match the major terms of the respective designated hedged items and the management considers that the hedges are highly effective.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these outstanding forward foreign exchange contracts and cross currency swap at the end of the reporting period are as follows:

Hedging instruments

	2017					2016				
	Average exchange rate*	Foreign currency	Notional amount million	HK\$ million	Fair value HK\$ million	Average exchange rate*	Foreign currency	Notional amount million	HK\$ million	Fair value HK\$ million
Forward foreign exchange contracts										
Sell US dollars (“USD”) (Note a)										
Within 1 year	7.8021	USD	42	329	–	7.7704	USD	28	221	–
More than 1 year but not exceeding 5 years	7.7996	USD	28	218	1	7.8011	USD	70	547	–
	7.8011	USD	70	547	1	7.7922	USD	98	768	–
Sell Renminbi (“RMB”) (Note b)										
Within 1 year	–	–	–	–	–	1.2185	RMB	55	67	6
Cross currency swap										
Hedging interest and principal of USD fixed rate notes (Note c)										
More than 5 years	7.7519	USD	300	2,326	(30)	7.7519	USD	300	2,326	11
Total				2,873	(29)				3,161	17

* Average exchange rate represented the average exchange rate of HKD versus respective currencies weighted by the notional amounts of the contracts or the swap.

Notes:

- The Group used HK\$547 million (2016: HK\$768 million) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes denominated in USD at their respective maturity dates.
- In 2016, the Group used HK\$67 million forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes and time deposits denominated in RMB at their respective maturity dates. The forward element of forward contracts was excluded from the cash flow hedge. All the RMB forward foreign exchange contracts were matured during 2017.
- The Group used HK\$2,326 million (2016: HK\$2,326 million) cross currency swap to convert USD interest and principal of US\$300 million (2016: US\$300 million) fixed rate notes into HKD.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

22. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges continued

(i) Foreign currency risk continued

Hedged items

	Carrying amount of the hedged item				Cash flow hedge reserves	
	Assets		Liabilities		2017 HK\$ million	2016 HK\$ million
	2017 HK\$ million	2016 HK\$ million	2017 HK\$ million	2016 HK\$ million		
USD term notes	548	764	–	–	1	1
RMB term notes & time deposits	–	61	–	–	–	1
USD fixed rate notes	–	–	2,338	2,317	(44)	10

The hedging ineffectiveness for the years ended 31 December 2017 and 2016 was insignificant.

	Change in the value of the hedging instrument recognised in other comprehensive income		Amount reclassified from the cash flow hedge reserve to profit or loss		Line item affected in profit or loss because of the reclassification
	2017 HK\$ million	2016 HK\$ million	2017 HK\$ million	2016 HK\$ million	
	Forward foreign exchange contracts	(6)	(1)	10	
Cross currency swap	(43)	78	(16)	2	Finance costs

The fair values of forward foreign exchange contracts and cross currency swap are measured using quoted forward exchange rates and yield curves from quoted interest rates matching maturities of the contracts and swap.

(b) Financial assets measured at FVTPL

Club debenture

Amount represented investment in unlisted club debenture. The Group's investment in unlisted club debenture has been classified as financial assets measured at FVTPL.

23. ACCOUNTS AND OTHER RECEIVABLES

	2017 HK\$ million	2016 HK\$ million
Accounts receivable	11	8
Interest receivable	44	50
Prepayments in respect of investment properties	283	76
Other receivables and prepayments	220	197
Total	558	331
Analysed for reporting purposes as:		
Current assets	226	196
Non-current assets	332	135
	558	331

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK\$11 million (2016: HK\$8 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

At the end of the reporting period, HK\$3 million (2016: nil) of the accounts receivable were past due but not impaired as the accounts receivables are generally fully covered by the rental deposits from corresponding tenants.

24. TIME DEPOSITS/CASH AND BANK BALANCES

	2017 HK\$ million	2016 HK\$ million
Time deposits	2,505	2,551
Cash and bank balances	157	79
Cash and deposits with banks shown in the consolidated statement of financial position	2,662	2,630
Less: Time deposits with original maturity over three months	(628)	(1,263)
Cash and cash equivalents shown in the consolidated statement of cash flows	2,034	1,367

Time deposits, cash and bank balances include bank deposits carrying effective interest rates ranging from 0.15 % to 2.56 % (2016: 0.15 % to 1.78 %) per annum.

25. ACCOUNTS PAYABLE AND ACCRUALS

	2017 HK\$ million	2016 HK\$ million
Accounts payable	215	149
Interest payable	74	75
Other payables	447	450
Compensation received in advance (<i>Note</i>)	–	261
	736	935

Note:

The amount represented a one-off early surrender compensation received from a tenant which has been recognised as compensation income under other income during the year ended 31 December 2017 at the date of fulfilment of all conditions set out in the surrender agreement.

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$157 million (2016: HK\$103 million) were aged less than 90 days.

26. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests are unsecured, interest-free and repayable on demand.

27. BORROWINGS

The analysis of the carrying amounts of borrowings is as follows:

	Current		Non-current	
	2017 HK\$ million	2016 HK\$ million	2017 HK\$ million	2016 HK\$ million
Unsecured bank loans	–	1,180	1,550	500
Unsecured fixed rate notes	150	–	4,485	4,613
	150	1,180	6,035	5,113

In the current year, the average cost of finance of the Group's total borrowings calculated based on their contracted interest rates was 3.3 % (2016: 3.7 %) per annum. To manage the foreign exchange risks, the Group used certain derivative to hedge part of the borrowings, which resulted in the Group's average cost of finance to be 3.4 % (2016: 3.8 %) per annum. As at 31 December 2017, the floating rate debt ratio relative to gross total debt after considering the hedges was 25.1 % (2016: 26.6 %).

Notes to the Consolidated Financial Statements continued

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27. BORROWINGS continued

(a) Unsecured bank loans

The unsecured bank loans of HK\$1,550 million (2016: HK\$1,680 million) are guaranteed as to principal and interest by the Company and are repayable, based on the scheduled repayment dates set out in the respective loan agreement, as follows:

	2017 HK\$ million	2016 HK\$ million
Within 1 year	–	1,180
More than 1 year, but not exceeding 2 years	500	–
More than 2 years, but not exceeding 5 years	1,050	500
	1,550	1,680

All the Group's unsecured bank loans are variable-rate borrowings with effective interest rates (which were also equal to contracted interest rates) at 1.97% (2016: 1.44%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to three months.

(b) Unsecured fixed rate notes

	2017 HK\$ million	2016 HK\$ million
Within 1 year	150	–
More than 1 year, but not exceeding 2 years	300	150
More than 2 years, but not exceeding 5 years	1,094	864
More than 5 years	3,091	3,599
	4,635	4,613

Details of the Group's unsecured fixed rate notes as at 31 December 2017 and 2016 are as follows:

Principal amount	Contracted interest rate per annum	Coupon payment term	Issue date	Maturity date
HK\$165 million	5.38%	annual basis	September 2008	September 2020
HK\$400 million	3.78%	quarterly basis	August 2010	August 2020
HK\$200 million	4.00%	annual basis	September 2010	September 2025
HK\$200 million	3.70%	quarterly basis	October 2010	October 2022
HK\$150 million	3.86%	quarterly basis	May 2011	May 2018
HK\$404 million	4.10%	annual basis	December 2011	December 2023
HK\$331 million	4.00%	quarterly basis	January 2012	January 2022
HK\$300 million	3.90%	quarterly basis	March 2012	March 2019
HK\$150 million	4.50%	annual basis	March 2012	March 2027
US\$300 million	3.50%	semi-annual basis	January 2013	January 2023

All the unsecured fixed rate notes were issued by Hysan MTN, a wholly-owned subsidiary of the Company. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate.

As detailed in note 22 of the Notes to the Consolidated Financial Statements section, during the years ended 31 December 2017 and 2016, cross currency swap was used to hedge or manage the foreign exchange rate risks of the Group's US\$ fixed rate notes.

28. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$ million	Revaluation of properties HK\$ million	Tax losses HK\$ million	Total HK\$ million
At 1 January 2016	614	69	–	683
Charge (credit) to profit or loss (<i>note 8</i>)	65	(1)	–	64
Charge to other comprehensive income	–	4	–	4
At 31 December 2016	679	72	–	751
Charge (credit) to profit or loss (<i>note 8</i>)	125	(1)	(96)	28
Charge to other comprehensive income	–	8	–	8
At 31 December 2017	804	79	(96)	787

At the end of the reporting period, the Group has unused estimated tax losses of HK\$1,243 million (2016: HK\$767 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$580 million (2016: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$663 million (2016: HK\$767 million) due to the unpredictability of future profit streams and the tax losses may be carried forward indefinitely.

29. SHARE CAPITAL

	Number of shares	Share capital HK\$ million
Ordinary shares, issued and fully paid:		
At 1 January 2016	1,057,177,692	7,642
Issue of shares under share option scheme	744,667	31
Cancellation upon repurchase of own shares (<i>Note</i>)	(12,594,000)	–
At 31 December 2016	1,045,328,359	7,673
Issue of shares under share option schemes	496,532	19
At 31 December 2017	1,045,824,891	7,692

Note:

The Company was authorised at its AGMs to repurchase its own ordinary shares not exceeding 10% of the total number of its issued shares as at the dates of the resolutions being passed. In 2016, the Company repurchased its ordinary shares on the Stock Exchange when they were trading at a significant discount to the Company's net asset value.

During the year of 2016, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2016	Number of shares repurchased	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
January	8,560,000	31.85	28.95	263
February	325,000	30.60	29.75	10
March	299,000	32.50	32.05	10
April	304,000	31.70	31.30	9
May	2,180,000	33.60	31.60	71
June	65,000	33.20	32.45	2
November	861,000	34.90	33.55	30
	12,594,000			395

The above ordinary shares were cancelled upon repurchase during 2016. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during both years.

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30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK\$ million	2016 HK\$ million
Non-current assets		
Property, plant and equipment	–	3
Investments in subsidiaries	1,318	1,307
Other financial assets	1	1
Amounts due from subsidiaries	3,735	3,815
	5,054	5,126
Current assets		
Other receivables	3	4
Amounts due from subsidiaries	10,309	10,026
Cash and bank balances	11	2
	10,323	10,032
Current liabilities		
Other payables and accruals	60	38
Amounts due to subsidiaries	2,288	2,228
Taxation payable	–	1
	2,348	2,267
Net current assets	7,975	7,765
Net assets	13,029	12,891
Capital and reserves		
Share capital (<i>note 29</i>)	7,692	7,673
Reserves	5,337	5,218
Total equity	13,029	12,891

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 28 February 2018 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lee T.H. Michael
Director

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *continued*

Movement in the Company's reserve

	Share options reserve HK\$ million	General reserve HK\$ million (Note)	Retained profits HK\$ million	Total HK\$ million
At 1 January 2016	30	100	5,281	5,411
Issue of shares under share option schemes	(7)	–	–	(7)
Recognition of equity-settled share-based payments	5	–	–	5
Forfeiture of share option	(4)	–	4	–
Cancellation upon repurchase of own shares	–	–	(395)	(395)
Profit and total comprehensive income for the year	–	–	1,598	1,598
Dividends paid during the year (note 13)	–	–	(1,394)	(1,394)
At 31 December 2016	24	100	5,094	5,218
Issue of shares under share option schemes	(4)	–	–	(4)
Recognition of equity-settled share-based payments	4	–	–	4
Forfeiture of share option	(3)	–	3	–
Profit and total comprehensive income for the year	–	–	1,530	1,530
Dividends paid during the year (note 13)	–	–	(1,411)	(1,411)
At 31 December 2017	21	100	5,216	5,337

Note:

General reserve was set up from the transfer of retained profits.

The Company's reserves available for distribution to its owners as at 31 December 2017 amounted to HK\$5,316 million (2016: HK\$5,194 million), being its general reserve and retained profits at that date.

31. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2017, the Group acquired 100% equity interests in four companies of which three companies are from independent third parties and a company is from Lee Hysan Estate Company, Limited ("LHE"), for aggregate cash consideration of HK\$570 million and HK\$75 million, respectively. LHE holds 41.42% (2016: 41.43%) beneficial interest and has significant influence over the Company. The major assets of these acquired companies are investment properties situated in Hong Kong. The Directors of the Company are of the opinion that the subsidiaries acquired do not constitute a business as defined in HKFRS 3 Business Combination, therefore, such acquisitions have been accounted for as acquisitions of assets rather than business combination. Acquisition-related costs amounting to HK\$9 million were capitalised as part of the carrying amount of the investment properties.

32. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES

	2017 HK\$ million
Net debt (Note a)	(3,523)
Other financial asset/liability (Note b)	(30)
Interest payable	(74)
	(3,627)

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32. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES continued

The Table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Cash and Bank balances HK\$ million	Time deposits HK\$ million	Other financial asset/ liability HK\$ million	Bank loans HK\$ million	Fixed rate notes HK\$ million	Interest payable HK\$ million	Dividend payable HK\$ million	Total HK\$ million
As at 1 January 2017	79	2,551	11	(1,680)	(4,613)	(75)	–	(3,727)
Cash flows, net	78	(46)	–	130	–	196	1,411	1,769
Other non-cash changes:								
Foreign exchange adjustments	–	–	19	–	(19)	–	–	–
Fair value adjustments	–	–	(57)	–	–	–	–	(57)
Interest expenses	–	–	(3)	–	(3)	(195)	–	(201)
Dividend declared	–	–	–	–	–	–	(1,411)	(1,411)
As at 31 December 2017	157	2,505	(30)	(1,550)	(4,635)	(74)	–	(3,627)

Notes:

- (a) Net debt represents borrowings less time deposits, cash and bank balances as disclosed under note 5 of the Financial Risk Management section.
- (b) Other financial asset/liability represents the hedging instrument (cross currency swap) that was used to hedge against the foreign exchange rate risk arising from financing activities.

33. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced Mandatory Provident Fund Scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF relevant income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF relevant income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$7 million (2016: HK\$4 million).

34. COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments in respect of its investment properties, property, plant and equipment and subscription to a newly set up fund investment as limited partner:

	2017 HK\$ million	2016 HK\$ million
(a) Capital commitment: Contracted but not provided for investment properties and property, plant and equipment	1,233	1,276
(b) Other commitment: Subscription to a newly set up fund investment as limited partner	369	–

35. LEASE COMMITMENTS

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2017 HK\$ million	2016 HK\$ million
Within one year	3,065	2,916
In the second to fifth year inclusive	4,754	4,572
Over five years	53	334
	7,872	7,822

Operating lease payments represent rentals receivable by the Group from leasing of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of one to three years. Certain leases include contingent rentals calculated with reference to turnover of the tenants.

At the end of the reporting period, the Group as lessee had no commitment under non-cancellable operating lease.

36. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions and balances with related parties

During the year, the Group has several transactions with related parties including imputed interest income on interest free loan to joint venture and acquisition of investment properties through acquiring subsidiaries as disclosed under note 6 and note 31 of the Notes to the Consolidated Financial Statements sections. At the end of the reporting period, the Group has several balances with related parties including loans to a joint venture and loans to associates as disclosed under note 18 and note 19 of the Notes to the Consolidated Financial Statements sections. The Group has also granted guarantees to banks for facilities granted to a joint venture as disclosed under note 37 of the Notes to the Consolidated Financial Statements section.

In addition, the Group has the following transactions with other related parties during the year and has the following balances with them at the end of the reporting period:

	Gross rental income received from Year ended 31 December		Amount due to non-controlling interests At 31 December	
	2017 HK\$ million	2016 HK\$ million	2017 HK\$ million	2016 HK\$ million
Related company controlled by a shareholder (<i>Note a</i>)	3	3	–	–
Related companies controlled by the Directors of the Company (<i>Note b (i) & (ii)</i>)	41	36	94	94
Non-controlling shareholder of a subsidiary (<i>Note c (i) & (ii)</i>)	29	28	233	233
Director (<i>Note d</i>)	1	1	–	–

Notes:

- (a) The sum of transactions represents the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of LHE. LHE holds 41.42% (2016: 41.43%) beneficial interest and has significant influence over the Company.
- (b) (i) The sum of transactions represents the aggregate gross rental income received from related companies where the Directors of the Company have controlling interests over these related companies.
(ii) The balance represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate by Jebsen Capital Limited (formerly known as Mightyhall Limited), a wholly-owned subsidiary of Jebsen and Company, of which Jebsen Hans Michael is a Director and a controlling shareholder, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (c) (i) The transaction represents the gross rental income received from Hang Seng Bank Limited ("Hang Seng"), the intermediate holding company of Imenson Limited ("Imenson") and The Hongkong and Shanghai Banking Corporation Limited, the holding company of Hang Seng. Imenson is a non-controlling shareholder with significant influence over Barrowgate.
(ii) The balance represents outstanding loan advanced to Barrowgate by Imenson, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (d) The transaction represents the gross rental income received from a Director of the Company.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

36. RELATED PARTY TRANSACTIONS AND BALANCES continued

(b) Compensation of key management personnel

The remuneration of Directors and other members of senior management of the Group are as follows:

	2017 HK\$ million	2016 HK\$ million
Directors' fees, salaries and other short-term employee benefits	43	36
Share-based payments	3	3
Retirement benefits scheme contributions	–	–
	46	39

The remuneration of the Directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

37. CONTINGENT LIABILITY

At the end of the reporting period, the Group had contingent liabilities as follows:

	2017 HK\$ million	2016 HK\$ million
Guarantees given to banks in respect of:		
Banking facilities of a joint venture attributable to the Group		
– Utilised	999	–
– Unutilised	2,001	–
	3,000	–

During the year ended 31 December 2017, the Group issued corporate financial guarantees to banks in respect of banking facilities granted to a joint venture. At the end of the reporting period, the Group did not recognise any liabilities in respect of such corporate financial guarantees as the Directors of the Company consider that the fair value of the financial guarantee contracts at its initial recognition is insignificant.

Other than the financial guarantees as disclosed above, several funding undertakings have been also provided by the Group to the extent not having been financed by drawdown made under the relevant banking facilities of the joint venture in relation to the completion of the underlying project of the joint venture.

38. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The 2005 Scheme

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme.

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the 2005 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares).

38. SHARE-BASED PAYMENT TRANSACTIONS continued

(a) Equity-settled share option scheme continued

The 2005 Scheme continued

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1 % of the total shares in issue as at the date of shareholder approval, being 10,499,636 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

The New Scheme

The Company adopted the New Scheme (together with the 2005 Scheme are referred to as the "Schemes") at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

The purpose of the New Scheme is to provide an incentive for employees of the Company and its subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the New Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed such number of shares as required under the Listing Rules, currently being 10 % of the shares in issue as at 15 May 2015, the date of the AGM approving the New Scheme (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10 % limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30 % of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30 % limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1 % of the total shares in issue as at the date of shareholder approval, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

During the year, a total of 727,000 (2016: 1,397,000) share options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

(b) Grant and vesting structures

Under the Company's current policy, grants will be made on a periodic basis. For the Schemes, the exercise period is 10 years and vesting period is 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

38. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options

The following table discloses movements of the Company's share options held by the Director and eligible employees during the current year:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2017	Changes during the year			Balance as at 31.12.2017
					Granted	Exercised	Cancelled/lapsed (Note b)	
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Eligible employees (Note c)								
	31.3.2008	21.96	31.3.2009 – 30.3.2018	11,000	–	(11,000) (Note d)	–	–
	31.3.2009	13.30	31.3.2010 – 30.3.2019	128,000	–	(69,000) (Note d)	–	59,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	126,334	–	(56,000) (Note d)	–	70,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	125,000	–	(39,000) (Note e)	(32,000)	54,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	160,001	–	(47,667) (Note f)	(7,000)	105,334
	28.3.2013	39.20	28.3.2014 – 27.3.2023	276,000	–	–	(123,000)	153,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	338,000	–	(139,000) (Note g)	(45,000)	154,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	359,000	–	(60,267) (Note h)	(94,066)	204,667
				2,500,335	–	(421,934)	(301,066)	1,777,335

38. SHARE-BASED PAYMENT TRANSACTIONS *continued*

(c) Movement of share options *continued*

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2017	Changes during the year			Balance as at 31.12.2017
					Granted	Exercised	Cancelled/ lapsed (Note b)	
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25 (Note i)	23.2.2018 – 22.2.2027	–	300,000	–	–	300,000
Eligible employees (Note c)								
	31.3.2016	33.05	31.3.2017 – 30.3.2026	610,000	–	(74,598) (Note j)	(157,734)	377,668
	31.3.2017	35.33 (Note k)	31.3.2018 – 30.3.2027	–	427,000	–	(18,000)	409,000
				985,000	727,000	(74,598)	(175,734)	1,461,668

Exercisable at the end of the year

1,824,992

Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon resignations of certain eligible employees.
- Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.25.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.95.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.99.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.86.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.79.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 22 February 2017) was HK\$36.00.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.69.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2017) was HK\$35.00.

In respect of the share options exercised during the year ended 31 December 2017, the weighted average share price at the dates of exercise was HK\$38.68.

Apart from the above, the Company had not granted any share option under the Schemes to any other person as required to be disclosed under Rule 17.07 of the Listing Rules in 2017.

Notes to the Consolidated Financial Statements continued

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38. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

The following table discloses movements of the Company's share options held by the Directors and eligible employees in prior year:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	Changes during the year			Balance as at 31.12.2016
					Granted	Exercised	Cancelled/ lapsed (Note b)	
2005 Scheme								
Executive Directors								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	(174,000) (Note c)	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Lau Siu Chuen (Note d)	14.5.2012	33.50	14.5.2013 – 13.5.2022	161,334	–	(161,334) (Note c)	–	–
	7.3.2013	39.92	7.3.2014 – 6.3.2023	246,000	–	–	(246,000)	–
	10.3.2014	32.84	10.3.2015 – 9.3.2024	302,000	–	(201,333) (Note e)	(100,667)	–
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	(300,000)	–
Eligible employees (Note f)	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	(6,000) (Note g)	–	11,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	134,000	–	(6,000) (Note g)	–	128,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	152,334	–	(26,000) (Note h)	–	126,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	172,001	–	(40,667) (Note i)	(6,334)	125,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	250,335	–	(76,334) (Note j)	(14,000)	160,001
	28.3.2013	39.20	28.3.2014 – 27.3.2023	288,000	–	–	(12,000)	276,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	396,000	–	(36,666) (Note k)	(21,334)	338,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	404,000	–	(16,333) (Note l)	(28,667)	359,000
				3,974,004	–	(744,667)	(729,002)	2,500,335

38. SHARE-BASED PAYMENT TRANSACTIONS *continued*

(c) Movement of share options *continued*

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	Changes during the year			Balance as at 31.12.2016
					Granted	Exercised	Cancelled/lapsed (Note b)	
New Scheme								
Executive Directors								
Lee Irene Yun-Lien	9.3.2016	33.15 (Note m)	9.3.2017 – 8.3.2026	–	375,000	–	–	375,000
Lau Siu Chuen (Note d)	9.3.2016	33.15 (Note m)	9.3.2017 – 8.3.2026	–	375,000	–	(375,000)	–
Eligible employees (Note f)								
	31.3.2016	33.05 (Note n)	31.3.2017 – 30.3.2026	–	647,000	–	(37,000)	610,000
				–	1,397,000	–	(412,000)	985,000
Exercisable at the end of the year								1,826,654

Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon re-designations of an executive Director and resignations of certain eligible employees.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.35.
- Lau Siu Chuen stepped down as Deputy Chairman and Chief Executive Officer and was re-designated as Non-Executive Director with effect from the conclusion of the August 2016 Board Meeting. All the options granted to Lau Siu Chuen have been lapsed at the date following the re-designation.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.30.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.25.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.27.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.95.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.88.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.78.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.84.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 8 March 2016) was HK\$33.70.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2016) was HK\$32.85.

In respect of the share options exercised during the year ended 31 December 2016, the weighted average share price at the dates of exercise was HK\$36.37.

Apart from the above, the Company had not granted any share option under the Schemes to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules in 2016.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

38. SHARE-BASED PAYMENT TRANSACTIONS continued

(d) Fair values of share options

The Group has applied HKFRS 2 to account for its share options granted. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In the current year, the Group recognised the share option expenses of HK\$4 million (2016: HK\$5 million) in relation to share options granted by the Company, of which HK\$2 million (2016: HK\$2 million) related to the Director (see note 11), with a corresponding adjustment recognised in the Group's share options reserve.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

Date of grant	31.3.2017	23.2.2017	31.3.2016	9.3.2016
Closing share price at the date of grant	HK\$35.250	HK\$36.250	HK\$33.050	HK\$33.150
Exercise price	HK\$35.330	HK\$36.250	HK\$33.050	HK\$33.150
Risk free rate (<i>Note a</i>)	1.331%	1.488%	0.931%	1.019%
Expected life of option (<i>Note b</i>)	5 years	5 years	5 years	5 years
Expected volatility (<i>Note c</i>)	19.133%	20.238%	27.323%	27.339%
Expected dividend per annum (<i>Note d</i>)	HK\$1.204	HK\$1.204	HK\$1.092	HK\$1.092
Estimated fair values per share option	HK\$4.374	HK\$4.958	HK\$6.127	HK\$6.190

Notes:

- Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- Expected volatility: being the appropriate historical volatility of closing prices of the shares of the Company over the past 5 years immediately before the date of grant.
- Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years.

Financial Risk Management

For the year ended 31 December 2017

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loans to associates, loans to a joint venture, fund investment, term notes, accounts receivable, other receivables, time deposits, cash and bank balances, accounts payable, accruals, amounts due to non-controlling interests, borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective Notes to the Consolidated Financial Statements sections. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The credit risk of the Group is primarily attributable to loans to associates, loans to a joint venture, rents receivable from tenants, derivative financial instruments, term notes, time deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

For rents receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

For derivative financial instruments, term notes, time deposits and bank balances, the Group only deals with financial institutions and invest in debt securities issued by issuers that have strong credit ratings to mitigate counterparty risk. In order to limit exposure to each financial institution and debt securities issuer, an exposure limit was set with each counterparty according to their credit rating with regular review by management.

Credit exposure to financial institutions and debt securities issuers are monitored and reported regularly to the management. The exposure to each counterparty comprised (i) investment value of financial assets (including time deposits and term notes); (ii) net positive value of derivative financial instruments and; (iii) potential exposures to derivatives which are based on the remaining term and the notional amount of the derivative financial instruments. The table below provides a high level summary of the Group's exposure to each counterparty at the end of the reporting period.

Category of counterparty	2017		2016	
	Number of counterparty	Exposure HK\$ million	Number of counterparty	Exposure HK\$ million
Credit rating of AA- or above or note issuing banks	6	5 to 681	4	19 to 631
Credit rating BBB- to A+	14	8 to 468	22	9 to 677

To minimise the credit risk of loans to associates and loan to a joint venture, the management reviews the recoverable amount of each individual balance at the end of the reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

Financial Risk Management continued

For the year ended 31 December 2017

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk

The Group closely monitors their liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group for their non-derivative financial liabilities based on the agreed repayment terms. Maturity of the Group's financial guarantee contract is presented separately. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars ("HKD"), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
As at 31 December 2017						
Non-derivative financial liabilities						
Accounts payable and accruals	(736)	(736)	(736)	–	–	–
Rental deposits from tenants	(895)	(895)	(389)	(269)	(227)	(10)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans	(1,550)	(1,655)	(32)	(528)	(1,095)	–
Unsecured fixed rate notes	(4,635)	(5,507)	(322)	(461)	(1,509)	(3,215)
	(8,143)	(9,120)	(1,806)	(1,258)	(2,831)	(3,225)
As at 31 December 2016						
Non-derivative financial liabilities						
Accounts payable and accruals	(935)	(935)	(935)	–	–	–
Rental deposits from tenants	(917)	(917)	(339)	(288)	(274)	(16)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans	(1,680)	(1,707)	(1,192)	(9)	(506)	–
Unsecured fixed rate notes	(4,613)	(5,659)	(175)	(322)	(1,312)	(3,850)
	(8,472)	(9,545)	(2,968)	(619)	(2,092)	(3,866)

Note:

In addition to the items as set out in the above liquidity risk table, the maximum amount the Group could be required to settle under a financial guarantee provided by the Group in respect of banking facilities granted to a joint venture is HK\$3,000 million, if such amount is claimed by the counterparties to the guarantee at any time within the guaranteed period. Based on expectations at the end of the reporting period, the Directors of the Company consider that it is more likely than not that no amount will be payable by the Group under such financial guarantee arrangement.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(b) Liquidity risk *continued*

The following table details the Group's remaining contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than HKD, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
As at 31 December 2017						
Derivative settled gross						
Forward foreign exchange contracts	1					
Outflow		(548)	(329)	(219)	–	–
Inflow		547	329	218	–	–
Cross currency swap	(30)					
Outflow		(2,772)	(85)	(85)	(255)	(2,347)
Inflow		2,797	82	82	246	2,387
As at 31 December 2016						
Derivative settled gross						
Forward foreign exchange contracts	6					
Outflow		(824)	(281)	(326)	(217)	–
Inflow		834	288	328	218	–
Cross currency swap	11					
Outflow		(2,857)	(85)	(85)	(255)	(2,432)
Inflow		2,855	81	81	244	2,449

(c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range. The Group is exposed to fair value interest rate risk in relation to fixed rate term notes (see note 21 of the Notes to Consolidated Financial Statements section).

As at 31 December 2017, about 25.1% (2016: 26.6%) of the Group's gross debts was effectively on a floating rate basis. The ratio could be adjusted according to views about changes in the interest rate trend going forward. In addition, the Group is exposed to cash flow interest rate risk as the interest income derived from time deposits and bank balances is subject to interest rate changes. Other than the concentration of interest rate risk related to the movements in Hong Kong Interbank Offered Rate, the Group has no significant concentration of interest rate risk.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(c) Interest rate risk continued

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and all other variables were held constant. Such change has been applied to non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -25 basis points (“bps”) (2016: +100 and -25 bps) was applied to the HKD and US dollars (“USD”) yield curves at the end of the reporting period. As at 31 December 2016, a change of +125 and -125 bps (2016: +125 and -125 bps) was applied to the RMB yield curve. The applied change of bps represented management’s assessment of the reasonably possible change in interest rates based on the current market conditions.

In management’s opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	bps increase HK\$ million	bps decrease HK\$ million	bps increase HK\$ million	bps decrease HK\$ million
As at 31 December 2017	11	(3)	(2)	4
As at 31 December 2016	14	(4)	(7)	2

(d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements for debt management. To cover foreign exchange exposures arising from debts, the Group’s foreign currency denominated monetary liabilities must be hedged back to HKD unless the liabilities are naturally hedged by the underlying asset in the same foreign currency. In managing the Group’s monetary assets, the Group limits the aggregate net foreign currency exposures to a certain threshold. Exposures exceeding that threshold will be hedged back to HKD. The majority of the Group’s assets are located and all rental income are derived in Hong Kong, and denominated in HKD. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in USD. The Group’s unsecured fixed rate notes are hedged by cross currency swap.

	2017			2016		
	RMB million	US\$ million	Total equivalent to HK\$ million	RMB million	US\$ million	Total equivalent to HK\$ million
Assets						
Cash	–	2	12	–	1	3
Time deposits	–	32	248	–	53	409
Term notes	–	94	737	55	126	1,036
	–	128	997	55	180	1,448
Liabilities						
Unsecured fixed rate notes	–	300	2,338	–	300	2,317

Other than concentration of currency risk of the above items denominated in USD (2016: USD and RMB), the Group has no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 22 of the Notes to the Consolidated Financial Statements section, to hedge against part of the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(d) Currency risk continued

Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and all other variable were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. Change of 500 percentage in points (“pips”) (2016: 500 pips and 1,000 pips) was applied to the HKD:USD (2016: HKD:USD and HKD:RMB) spot and forward rates at the end of the reporting period.

In management’s opinion, the sensitivity analysis is unrepresentative of the currency risk as the year end exposure does not reflect the exposure during the year.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	pips increase HK\$ million	pips decrease HK\$ million	pips increase HK\$ million	pips decrease HK\$ million
As at 31 December 2017				
– USD	9	(9)	4	(4)
As at 31 December 2016				
– USD	4	(4)	1	(1)

2. CATEGORIES OF FINANCIAL INSTRUMENTS

	2017 HK\$ million	2016 HK\$ million
Financial assets		
Fair value through profit or loss (“FVTPL”)	22	1
Derivative instruments under hedge accounting	2	18
Amortised cost (including cash and cash equivalents)	4,448	5,737
	4,472	5,756
Financial liabilities		
Derivative instruments under hedge accounting	31	1
Amortised cost	7,248	7,555
	7,279	7,556

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements (“ISDA Agreements”) signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts. Other than derivatives transactions mentioned above, the Group has no other financial assets and financial liabilities which are offset in the Group’s consolidated statement of financial statements or are subject to similar netting arrangements.

(a) Financial assets subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial assets HK\$ million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK\$ million	Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million
As at 31 December 2017			
Derivatives under hedge accounting	2	–	2
As at 31 December 2016			
Derivatives under hedge accounting	18	–	18

(b) Net financial assets subject to enforceable master netting arrangements or similar agreements, by counterparty

	Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million	Financial liabilities not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
As at 31 December 2017			
Counterparty B	1	–	1
Counterparty C	1	(1)	–
Total	2	(1)	1
As at 31 December 2016			
Counterparty A	11	–	11
Counterparty B	7	–	7
Total	18	–	18

(c) Financial liabilities subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial liabilities HK\$ million	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$ million	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$ million
As at 31 December 2017			
Derivatives under hedge accounting	(31)	–	(31)
As at 31 December 2016			
Derivatives under hedge accounting	(1)	–	(1)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS continued

(d) Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$ million	Financial assets not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
As at 31 December 2017			
Counterparty A	(30)	–	(30)
Counterparty C	(1)	1	–
Total	(31)	1	(30)
As at 31 December 2016			
Counterparty C	(1)	–	(1)

4. FAIR VALUE MEASUREMENT

(a) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair values of financial assets and financial liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow methodology taking into account the market interest rate and credit risk of the counterparties and of the Group as appropriate.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values, except for the carrying amount of HK\$4,635 million (2016: HK\$4,613 million) unsecured fixed rate notes as stated in note 27 of the Notes to the Consolidated Financial Statements section with fair value of HK\$4,737 million (2016: HK\$4,672 million).

The fair value of HK\$2,391 million (2016: HK\$2,340 million) of the unsecured fixed rate notes is categorised into Level 1 of the fair value hierarchy, in which the fair value was derived from quoted prices in an active market translated at the spot foreign exchange rate of the respective currency at year end.

The fair value of HK\$2,346 million (2016: HK\$2,332 million) of the unsecured fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

Financial Risk Management continued

For the year ended 31 December 2017

4. FAIR VALUE MEASUREMENT continued

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2017			
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Financial assets				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	2	–	2
Financial assets at FVTPL				
Unlisted club debenture	–	1	–	1
Fund investment	–	21	–	21
Total	–	24	–	24
Financial liabilities				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	1	–	1
Cross currency swap	–	30	–	30
Total	–	31	–	31
2016				
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Financial assets				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	7	–	7
Cross currency swap	–	11	–	11
Total	–	18	–	18
Financial assets at FVTPL				
Unlisted club debenture	–	1	–	1
Total	–	19	–	19
Financial liabilities				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	1	–	1

There were no transfers between Levels 1 and 2 for both years.

4. FAIR VALUE MEASUREMENT continued

(c) Valuation techniques and inputs used in fair value measurements categorised within Level 2

Forward foreign exchange contracts and cross currency swap are measured using discounted cash flow methodology based on observable spot and forward exchange rates as well as the yield curves of the respective currencies taking into account the credit risk of the counterparties and of the Group as appropriate.

Fund investment is measured with reference to the fair value of underlying assets and liabilities held under the fund as at the end of the reporting period.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less time deposits, cash and bank balances.

The management reviews the Group's net debt to equity ratio regularly and adjusts the ratio through the payment of dividends, the issue of new share or debt, the repurchase of shares and the redemption of existing debt.

The net debt to equity ratio at the year end was as follows:

	2017 HK\$ million	2016 HK\$ million
Unsecured bank loans	1,550	1,680
Unsecured fixed rate notes	4,635	4,613
Borrowings	6,185	6,293
Less: Time deposits	(2,505)	(2,551)
Cash and bank balances	(157)	(79)
Net debt	3,523	3,663
Equity attributable to owners of the Company	69,953	67,490
Net debt to equity	5.0%	5.4%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Five-Year Financial Summary

For the year ended 31 December

	2017 HK\$ million	2016 HK\$ million	2015 HK\$ million	2014 HK\$ million	2013 HK\$ million
Results					
Turnover	3,548	3,535	3,430	3,224	3,063
Property expenses	(449)	(428)	(414)	(404)	(405)
Gross profit	3,099	3,107	3,016	2,820	2,658
Other income	261	–	–	–	–
Investment income	69	50	54	68	76
Other gains and losses	–	–	–	(2)	1
Administrative expenses	(247)	(219)	(234)	(214)	(208)
Finance costs	(158)	(178)	(204)	(228)	(242)
Change in fair value of investment properties	853	(1,187)	695	2,940	4,575
Share of results of associates	220	237	246	252	309
Profit before taxation	4,097	1,810	3,573	5,636	7,169
Taxation	(484)	(463)	(438)	(386)	(372)
Profit for the year	3,613	1,347	3,135	5,250	6,797
Non-controlling interests	23	(129)	(232)	(348)	(639)
Profit attributable to owners of the Company	3,636	1,218	2,903	4,902	6,158
Underlying profit for the year	2,491	2,369	2,283	2,163	2,043
Recurring underlying profit for the year	2,349	2,369	2,283	2,163	2,043
Dividends					
Dividends paid	1,411	1,394	1,330	1,255	1,064
Dividends proposed	1,161	1,139	1,122	1,064	1,010
Dividends per share (HK cents)	137.00	135.00	132.00	123.00	117.00
Earnings per share (HK\$), based on:					
Profit for the year					
– basic	3.48	1.16	2.73	4.61	5.79
– diluted	3.48	1.16	2.73	4.61	5.79
Underlying profit for the year – basic	2.38	2.26	2.15	2.03	1.92
Recurring underlying profit for the year – basic	2.25	2.26	2.15	2.03	1.92
Performance indicators					
Net debt to equity	5.0%	5.4%	3.0%	4.2%	5.3%
Net interest coverage (times)	17.1x	20.5x	19.5x	17.1x	15.4x
Net asset value per share (HK\$)	66.89	64.56	64.48	63.02	59.54
Net debt per share (HK\$)	3.37	3.50	1.94	2.64	3.18
Year-end share price (HK\$)	41.45	32.05	31.75	34.65	33.40

At 31 December

	2017 HK\$ million	2016 HK\$ million	2015 HK\$ million	2014 HK\$ million	2013 HK\$ million
Assets and liabilities					
Investment properties	72,470	69,633	69,810	68,735	65,322
Investments in associates	3,779	3,497	3,683	4,154	4,181
Loans to associates	10	–	–	–	–
Investment in a joint venture	147	145	–	–	–
Loan to a joint venture	982	1,891	–	–	–
Fund investment	21	–	–	–	–
Time deposits, cash and bank balances	2,662	2,630	2,804	3,640	4,123
Other assets	2,049	2,225	2,491	2,494	2,468
Total assets	82,120	80,021	78,788	79,023	76,094
Borrowings	(6,185)	(6,293)	(4,859)	(6,447)	(7,504)
Taxation	(945)	(863)	(803)	(732)	(660)
Other liabilities	(1,989)	(2,180)	(1,758)	(1,715)	(1,749)
Total liabilities	(9,119)	(9,336)	(7,420)	(8,894)	(9,913)
Net assets	73,001	70,685	71,368	70,129	66,181
Non-controlling interests	(3,048)	(3,195)	(3,196)	(3,089)	(2,855)
Shareholders' funds	69,953	67,490	68,172	67,040	63,326

Definitions:

- (1) Underlying profit for the year: profit adjusted for group's share of unrealised fair value changes on investment properties
- (2) Recurring underlying profit for the year: underlying profit adjusted for items that are non-recurring in nature
- (3) Net debt to equity: borrowings less time deposits, cash and bank balances divided by shareholders' funds
- (4) Net interest coverage: gross profit less administrative expenses before depreciation divided by net interest expenses
- (5) Net asset value per share: shareholders' funds divided by number of issued shares at year end
- (6) Net debt per share: borrowings less time deposits, cash and bank balances divided by number of issued shares at year end

Report of the Valuer

To the Board of Directors
Hysan Development Company Limited

Dear Sirs,

Annual Revaluation of Investment Properties as at 31 December 2017

In accordance with your appointment of Knight Frank Petty Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the market value of the investment properties as at 31 December 2017 was in the approximate sum of Hong Kong Dollars Seventy-Two Billion Four Hundred and Seventy Million Only (ie HK\$72,470 million).

The completed investment properties have been valued individually, on market value basis, on the basis of capitalisation of the net income with due allowance for the reversionary income potential, without allowances for any expenses or taxation which may be incurred in effecting a sale and cross reference by sales comparables, where appropriate.

Yours faithfully
Knight Frank Petty Limited

Hong Kong, 20 February 2018

Schedule of Principal Properties

At 31 December 2017

INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
1. Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100 %
2. Bamboo Grove 74-86 Kennedy Road Mid-Levels Hong Kong	I.L. 8624	Residential	Medium term lease	100 %
3. Lee Garden Two 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36 %
4. Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100 %
5. Lee Theatre Plaza 99 Percival Street Causeway Bay Hong Kong	I.L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100 %
6. Lee Garden Three 4-14 Hoi Ping Road 10 Hysan Avenue and 1-11 Sunning Road Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100 %
7. One Hysan Avenue 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100 %
8. Lee Garden Five 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100 %
9. Lee Garden Six 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100 %
10. Hysan Place 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100 %

Overview

Business Performance

Corporate Governance

Financial Statements and Valuation

Shareholding Analysis

SHARE CAPITAL

At 31 December 2017

	HK\$	Number of Ordinary Shares
Issued and fully paid-up capital	7,691,655,205.74	1,045,824,891

There was one class of ordinary shares with equal voting rights.

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2017, as per register of members of the Company)

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of ordinary shares	% of the total no. of issued shares (Note)
5,000 or below	2,349	71.83	3,711,789	0.35
5,001 – 50,000	788	24.10	12,159,722	1.16
50,001 – 100,000	73	2.23	5,521,518	0.53
100,001 – 500,000	49	1.50	9,882,333	0.95
500,001 – 1,000,000	3	0.09	1,869,043	0.18
Above 1,000,000	8	0.25	1,012,680,486	96.83
Total	3,270	100.00	1,045,824,891	100.00

TYPES OF SHAREHOLDERS

(At 31 December 2017, as per register of members of the Company)

Type of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Atlas Corporate Management Limited	39,809,001	3.81
Lee Hysan Estate Company, Limited	393,321,734	37.61
Other corporate shareholders	581,731,181	55.62
Individual shareholders	30,962,975	2.96
Total	1,045,824,891	100.00

LOCATION OF SHAREHOLDERS

(At 31 December 2017, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Hong Kong	1,043,243,180	99.75
United States and Canada	2,249,924	0.22
United Kingdom	119,085	0.01
Others	212,702	0.02
Total	1,045,824,891	100.00

Note:

The percentage was compiled based on the total number of issued shares of the Company as at 31 December 2017 (i.e. 1,045,824,891 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	28 February 2018
Ex-dividend date for second interim dividend	13 March 2018
Closure of register of members and record date for second interim dividend	15 March 2018
Dispatch of second interim dividend warrants	(on or about) 29 March 2018
Closure of register of members for Annual General Meeting	3 to 8 May 2018
Annual General Meeting	8 May 2018
2018 interim results to be announced	7 August 2018*

* subject to change

DIVIDEND

The Board declares the payment of a second interim dividend of HK111 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Thursday, 15 March 2018.

The register of members will be closed on Thursday, 15 March 2018, for the purpose of determining shareholders' entitlement to the second interim dividend, on which date no transfer of shares will be registered. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Wednesday, 14 March 2018.

Dividend warrants will be dispatched to shareholders on or about Thursday, 29 March 2018.

The register of members will also be closed from Thursday, 3 May 2018 to Tuesday, 8 May 2018, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on 8 May 2018, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Wednesday, 2 May 2018.

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrar, Tricor Standard Limited:

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980 1768
Facsimile: (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrar promptly of any change of their address.

The Annual Report is printed in English and Chinese language and is available on our website at www.hysan.com.hk. Shareholders may at any time choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hysan.com.hk.

INVESTOR RELATIONS

For enquiries relating to investor relations, please email to investor@hysan.com.hk or write to the Company at:

Investor Relations
Hysan Development Company Limited
49/F. (Reception: 50/F.), Lee Garden One
33 Hysan Avenue
Hong Kong
Telephone: (852) 2895 5777
Facsimile: (852) 2577 5153

Corporate Information

BOARD OF DIRECTORS

Lee Irene Yun-Lien (*Chairman*)
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Jebsen Hans Michael B.B.S.*
(*Yang Chi Hsin Trevor as his alternate*)
Lee Anthony Hsien Pin*
(*Lee Irene Yun-Lien as his alternate*)
Lee Chien*
Lee Tze Hau Michael*

AUDIT COMMITTEE

Poon Chung Yin Joseph** (*Chairman*)
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lee Anthony Hsien Pin*

REMUNERATION COMMITTEE

Fan Yan Hok Philip** (*Chairman*)
Poon Chung Yin Joseph**
Lee Tze Hau Michael*

NOMINATION COMMITTEE

Lee Irene Yun-Lien (*Chairman*)
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Lee Chien*

* Non-Executive Director

** Independent Non-Executive Director

STRATEGY COMMITTEE

Lee Irene Yun-Lien (*Chairman*)
Fan Yan Hok Philip**
Poon Chung Yin Joseph**
Jebsen Hans Michael B.B.S.*
Lee Chien*

COMPANY SECRETARY

Cheung Ka Ki Maggie

REGISTERED OFFICE

49/F. (Reception: 50/F)
Lee Garden One
33 Hysan Avenue
Hong Kong

OUR WEBSITE

Press releases and other information of the Group can be found at our internet website: www.hysan.com.hk.

SHARE LISTING

Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

STOCK CODE

The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticket Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

Hysan Development Company Limited
49/F Lee Garden One, 33 Hysan Avenue, Hong Kong
T 852 2895 5777 F 852 2577 5153
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