恒基兆業發展有限公司
HENDERSON INVESTMENT LIMITED
Stock Code: 97

ANNUAL REPORT 2017

Corporate Profile

Listed in Hong Kong since 1972, Henderson Investment Limited is a subsidiary of Henderson Land Development Company Limited, a leading property development group in Hong Kong. With the Citistore business acquired in December 2014, its retailing operation has become the sole business of the Company.

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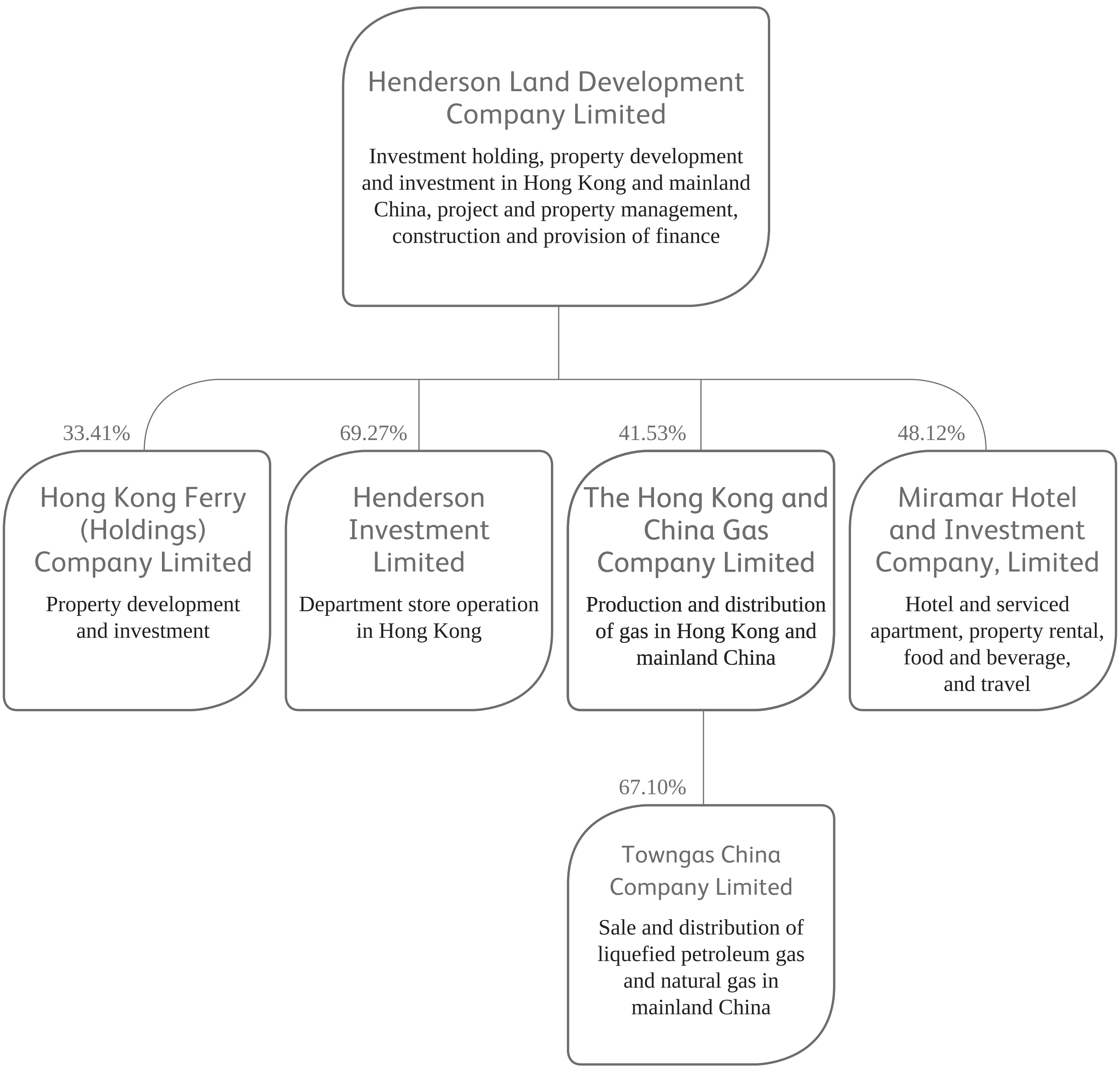
FORWARD-LOOKING STATEMENTS

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

Group Structure

Henderson Land Group Structure

Market capitalisation as at 31 December 2017
Henderson Land Development Company Limited: HK$206 billion
Six listed companies of Henderson Land Group: HK$453 billion



Note: all attributable interests shown above were figures as of 31 December 2017.

Chairman's Statement

Profit and Net Asset Value Attributable to Shareholders

The Group's profit attributable to equity shareholders for the year ended 31 December 2017 amounted to HK$111 million, representing an increase of HK$11 million or 11% over HK$100 million for the previous year. The increase was mainly the net result of the net gain of HK$33 million arising from the completion of the winding-up proceedings for the discontinued infrastructure operation in mainland China during the year under review, and the reduced profit contribution of HK$23 million from Citistore. Earnings per share were HK 3.6 cents (2016: HK 3.3 cents).

At 31 December 2017, the net asset value attributable to equity shareholders amounted to HK$1,430 million or HK$0.47 per share.

Dividends

The Board recommends the payment of a final dividend of HK 2.0 cents per share to shareholders whose names appear on the Register of Members of the Company on Monday, 11 June 2018, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the interim dividend of HK 2.0 cents per share already paid, the total dividend for the year ended 31 December 2017 will amount to HK 4.0 cents per share (2016: HK 4.0 cents per share).

The proposed final dividend is expected to be distributed to shareholders on Friday, 15 June 2018.

Business Review

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

Citistore Branches	Location	Total sales area (square feet)
Tsuen Wan	KOLOUR • Tsuen Wan II	150,641
Yuen Long	KOLOUR • Yuen Long	61,610
Ma On Shan	Sunshine City Plaza	100,301
Tseung Kwan O	MCP Central	128,165
Tai Kok Tsui	Metro Harbour Plaza	90,760
Tuen Mun	North Wing, The Trend Plaza	17,683
	Total:	**549,160**

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

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

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

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

Citistore mascots

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

	For the year ended 31 December	
	2017 **HK$ million**	2016 HK$ million
Proceeds from sales of own goods	**410**	434
Proceeds from concessionaire and consignment sales	**1,400**	1,446
Total:	**1,810**	1,880

Citistore

Sales of Own Goods and Gross Margin

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

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million
Sales of own goods	**410**	434
Gross profit (after netting the cost of inventories sold)	**142**	151
Gross margin	**35%**	35%

Rental Income from Concessionaire and Consignment Counters

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

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million
Sales proceeds from concessionaire counters	**517**	545
Sales proceeds from consignment counters	**883**	901
Total:	**1,400**	1,446
Rental income from concessionaire and consignment counters	**417**	430

Citistore's Profit Contribution

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

	For the year ended 31 December	
Operating Expenses	**2017 HK$ million**	2016 HK$ million
Salaries and related costs	**113**	112
Rental and related costs	**235**	240
Selling and marketing expenses	**21**	21
Administrative and other expenses	**61**	57
Total:	**430**	430
Citistore's Profit after taxation:	**74**	97

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

Corporate Finance

At 31 December 2017, the Group had no bank borrowings (31 December 2016: Nil) and its cash and bank balances amounted to HK$756 million (31 December 2016: HK$801 million).

Prospects

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

Appreciation

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

Lee Ka Shing
Chairman

Hong Kong, 21 March 2018

Business Model and Strategic Direction

With the acquisition by the Group of the "Citistore" business completed in December 2014, the retailing operation in Hong Kong has now become the sole business of the Group.

Business Model

Strong brand

The department store operation comprises six department stores operating under the name "Citistore". "Citistore" is an established brand with more than 20 years of operating track record and a strong brand that is trusted among the consuming public in Hong Kong.

Stable income and profitability

With strategic store location and diversified product range, the department store operation targets on products offerings of daily necessities for which demand does not fluctuate significantly regardless of changes in the overall market conditions and hence achieves stable income and improvements in profitability.

Strategic Direction

Strategic location

All six "Citistore" stores are strategically located in well established and densely-populated residential districts and are in close proximity to local transport hubs to balance convenience to their customers and cost efficiency. Such strategic store locations allow the retailing business of "Citistore" to penetrate its targeted consumers and in turn strengthen its competitive position in the market.

Effective merchandising strategy

As one of the merchandising strategies of "Citistore" is to source and purchase quality products which are not commonly offered by its competitors, the procurement team pays regular visits to mainland China and other countries with a view to discovering new suppliers and new products which are attractive to its consumers.

Diversified products and competitive prices

"Citistore" stores offer a diversified range of goods and merchandise, including apparel, cosmetics, housewares, foods and daily necessities, which enable customers to enjoy the convenience of a one-stop shopping experience for a wide variety of products at reasonable and competitive prices.

Management Discussion and Analysis

Financial review

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

Results of operations

During the year ended 31 December 2017, the Group was engaged in the operation of department stores in Hong Kong under the name of "Citistore" through Citistore (Hong Kong) Limited ("Citistore HK"), a wholly-owned subsidiary of the Company, which remained to be the Group's continuing business operation and the sole contributor of revenue to the Group.

(a) Department store operation in Hong Kong

The Group recognised the following financial performance of Citistore HK for the year ended 31 December 2017 as compared with the corresponding year ended 31 December 2016:

	Note	**Year ended 31 December** **2017** **HK$ million**	Year ended 31 December 2016 HK$ million	*Increase/ (Decrease) HK$ million*	*Increase/ (Decrease) %*
Revenue					
– Sale of goods		**410**	434	*(24)*	*-6%*
– Rental income derived from consignment counters		**264**	269	*(5)*	*-2%*
– Rental income derived from concessionaire counters		**153**	161	*(8)*	*-5%*
– Promotion income		**7**	7	*0*	–
	(i)	**834**	871	*(37)*	*-4%*
Direct costs					
– Cost of inventories sold		**(268)**	(283)	*15*	*-5%*
– Rental and related expenses of the store outlets		**(235)**	(240)	*5*	*-2%*
– Staff salaries and related expenses of the store outlets		**(113)**	(112)	*(1)*	*+1%*
– Depreciation charge on leasehold improvements	(iii)	**(29)**	(22)	*(7)*	*+32%*
– Others		**(28)**	(30)	*2*	*-7%*
	(ii)	**(673)**	(687)	*14*	*-2%*
Other revenue	(iv)	**10**	10	*0*	–
Selling and marketing expenses	(v)	**(21)**	(21)	*0*	–
Administrative expenses	(vi)	**(61)**	(57)	*(4)*	*+7%*
Profit before taxation		**89**	116	*(27)*	*-23%*
Income tax	(vii)	**(15)**	(19)	*4*	*-21%*
Profit after taxation attributable to equity shareholders of the Company		**74**	97	*(23)*	*-24%*

Notes:

(i) *The year-on-year decrease in revenue of HK$37 million, or 4%, is mainly attributable to (i) a significantly warmer weather during the Chinese New Year sales promotion period which therefore resulted in a decrease in the sales of winter merchandises in January and February 2017 when compared with that for the corresponding period; and (ii) a weaker retail market sentiment in Hong Kong during the first three quarters of 2017 and which showed signs of slow recovery in the last quarter of 2017.*

(ii) *The year-on-year decrease in direct costs of HK$14 million, or 2%, is mainly represented by the decrease in the cost of inventories sold which was in line with the decrease in the revenue derived from the sales of goods during the year ended 31 December 2017.*

(iii) *The year-on-year increase in depreciation charge on leasehold improvements of HK$7 million, or 32%, is due to the completion of the renovation works relating to the relocation of the Ma On Shan store in January 2017.*

(iv) *Other revenue comprises sponsorship fees, rental income for antenna site and sundry income.*

(v) *Selling and marketing expenses comprise advertising and promotion expenditures.*

(vi) *Administrative expenses mainly comprise salaries and related expenses of the administrative staffs of HK$40 million (2016: HK$36 million). The year-on-year increase in administrative expenses of HK$4 million, or 7%, is represented by the increase in the salaries and related expenses of the administrative staffs during the year ended 31 December 2017.*

(vii) *Income tax charge relates to the provision for Hong Kong Profits Tax for the year. The year-on-year decrease in income tax charge of HK$4 million, or 21%, is due to the decrease in the pre-tax profit of Citistore HK for the year ended 31 December 2017.*

(b) Corporate level

		Year ended 31 December			
	Note	**2017 HK$ million**	2016 HK$ million	*Increase HK$ million*	*Increase %*
Other income					
– Bank interest income		**10**	7	*3*	*+43%*
– Net gain on winding-up of subsidiaries	(viii)	**33**	0	*33*	*n/a*
– Sundry income		**1**	1	*0*	*–*
		44	8	*36*	*+450%*
Administrative expenses		**(8)**	(5)	*(3)*	*+60%*
Profit before taxation		**36**	3	*33*	*+1,100%*
Income tax		**0**	0	*0*	*–*
Profit after taxation		**36**	3	*33*	*+1,100%*
Non-controlling interest	(ix)	**1**	0	*1*	*n/a*
Profit after taxation attributable to equity shareholders of the Company		**37**	3	*34*	*+1,133%*

Notes:

(viii) *For the year ended 31 December 2017, the Group recognised a net gain of HK$33 million upon the winding-up of two non-wholly owned subsidiaries, namely, Tianjin Jinning Roads Bridges Construction Development Company Limited and Tianjin Wanqiao Project Development Company Limited (collectively the "Tianjin joint ventures", both being Sino-foreign co-operative joint venture enterprises engaged in the operation of infrastructure projects in mainland China and in each of which the Group has 70% equity interest), which was completed on 16 November 2017.*

(ix) *The amount of HK$1 million represents the share of expenses of the Tianjin joint ventures attributable to the non-controlling interest, who has 30% equity interest in each of the Tianjin joint ventures, upon the completion of the winding-up of the Tianjin joint ventures as referred to in note (viii) above.*

(c) Overall

Aggregating the abovementioned profits after tax of Citistore HK and at corporate level for the year ended 31 December 2017, the Group recorded total profit after tax attributable to equity shareholders in the amount of HK$111 million for the year ended 31 December 2017 (2016: HK$100 million).

Financial resources, liquidity and loan maturity profile

At 31 December 2017, the Group had no bank borrowings (2016: Nil). The Group had net cash and bank balances of HK$756 million at 31 December 2017 (2016: HK$801 million).

During the year ended 31 December 2017, the Group did not recognise any finance costs (2016: Nil).

Based on the Group's net cash and bank balances of HK$756 million at 31 December 2017, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group's financing and treasury activities are centrally managed at the corporate level. At 31 December 2017 and 2016, the Group was not a contractual party to any arrangements in relation to any derivative financial instruments for speculative or hedging purposes. The Group monitors closely its interest rate exposure (in the event that the Group shall enter into new bank borrowings) and foreign exchange rate exposure (in relation to any bank deposits in Hong Kong which may be converted to be denominated in a foreign currency other than Hong Kong dollars) and will consider hedging these exposures should the need arise.

Apart from the foregoing, the Group did not have any material exposures to interest rates or foreign exchange rates at 31 December 2017 and 2016.

Material acquisitions and disposals

During the year ended 31 December 2017, other than the completion of the winding-up of the Tianjin joint ventures on 16 November 2017 (as referred to in sub-paragraph (b) "Corporate level" of the paragraph headed "Results of operations" above), the Group did not undertake any significant acquisitions or any other significant disposals of subsidiaries.

Charge on assets

Assets of the Group were not charged to any parties at 31 December 2017 and 2016.

Capital commitments

At 31 December 2017, the Group had capital commitments in relation to fixed assets contracted but not provided for in the amount of HK$Nil (2016: HK$1 million).

Contingent liabilities

At 31 December 2017 and 2016, the Group did not have any contingent liabilities.

Employees and remuneration policy

At 31 December 2017, the Group had 586 (2016: 625) full-time employees and 144 (2016: 138) part-time employees, as follows:

	Full-time employees		Part-time employees	
	At 31 December		At 31 December	
	2017	2016	**2017**	2016
Citistore HK	**586**	623	**144**	138
Corporate level	**–**	2	**–**	–
Total	**586**	625	**144**	138

In relation to the Group's full-time employees at the corporate level, the remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

In relation to Citistore HK, the remuneration packages for the full-time employees typically comprise basic salaries, certain allowances, medical benefits and discretionary year-end bonuses, while remuneration packages for part-time employees typically comprise basic salaries and certain allowances. A defined contribution retirement plan is provided by Citistore HK towards Mandatory Provident Fund for eligible employees, while due to historical factors, long-time employees of Citistore HK receive the benefit of contributions under the Occupational Retirement Schemes Ordinance ("ORSO"). On-going training programme is also offered to all the employees of Citistore HK.

Total staff costs for the year ended 31 December 2017 amounted to HK$154 million (2016: HK$148 million), as follows:

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million
Citistore HK	**153**	147
Corporate level	**1**	1
Total	**154**	148

Despite a decrease in the total headcount (comprising full-time employees and part-time employees) of Citistore HK from 761 staffs at 31 December 2016 to 730 staffs at 31 December 2017, the total staff costs for the year ended 31 December 2017 increased by HK$6 million, or 4%, which is mainly attributable to an increase of 5% in the average staff cost for the full-time employees of Citistore HK during the year ended 31 December 2017.

Five Year Financial Summary

		Year ended 31 December				
	Note	2013 HK$ million	2014 HK$ million	2015 HK$ million	2016 HK$ million	2017 HK$ million
Profit/(loss) for the year	1	10	(7)	449	100	111
		HK cents	HK cents	HK cents	HK cents	HK cents
Earnings/(loss) per share	1	0.3	(0.2)	14.7	3.3	3.6
Dividends per share	1	4.0	4.0	4.0	4.0	4.0

		At 31 December				
	Note	2013 HK$ million	2014 HK$ million	2015 HK$ million	2016 HK$ million	2017 HK$ million
Fixed assets		1	71	73	101	90
Intangible operating right		394	361	–	–	–
Net asset value	1	1,433	1,303	1,489	1,465	1,430
		HK$	HK$	HK$	HK$	HK$
Net asset value per share	1	0.47	0.43	0.49	0.48	0.47

Note:

1. *The profits/(loss), earnings/(loss), dividends and net asset values shown or referred to above were all attributable to equity shareholders of the Company.*

Sustainability and CSR

1 About This Section

(a) Reporting Standard and Scope

The Company is pleased to present the third Environmental, Social and Governance ("ESG") Report (the "Report"), which has been prepared in accordance with the disclosure requirements of the ESG Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX"). The Report provides an overview of the environmental policy, ESG impacts and management approach adopted by the Company and presents its sustainability initiatives and performance trends during the year ended 31 December 2017. To represent and cover the businesses which have a considerable impact on the Company's environmental and social performance, the scope of the Report includes the following entities:

Department Store	Citistore
Fashion Retail	id:c / needle & line / *CITIZEN'S EDIT

** new fashion brand established in 2017*

To better navigate and locate relevant ESG topics, disclosures and key performance indicators (KPIs) in the Report and provide supplemental information, a detailed ESG content index is presented at the end of the Report. Additional ESG performance information including financial data and corporate governance can be located in other sections of this Annual Report.

(b) Stakeholder Engagement and Materiality Assessment

The Company recognises the importance of engaging stakeholders and identifying material sustainability issues for our continued ESG success. To prepare the Report, the Company sought the professional advice of an independent ESG consultant to conduct the stakeholder engagement and materiality assessment. While an online survey for internal stakeholders was conducted last year, the Company further expanded the reach of the online survey this year to cover business partners, customers, and non-governmental organisations ("NGOs"). The purpose is to gather more comprehensive stakeholder insights on the materiality of various ESG issues, the Company's current ESG performance, and the content of the Report.

The following describes the detailed three-step process undertaken to determine the material issues for disclosure in the Report:

Step 1: Identification	Step 2: Prioritisation
To identify potential material topics: • Peer benchmarking: The ESG disclosures of local, regional and international peers were reviewed to identify industry practices. • Stakeholder engagement: An online survey was conducted with the internal stakeholders (employees) in 2016 and external stakeholders (business partners, customers, and NGOs) in 2017 to rank the materiality of various ESG issues and share their thoughts on the Report.	To prioritise the potential material topics: • Results from the peer benchmarking exercise and the outcomes of the stakeholder engagement were compiled and analysed to indicate the overall materiality level for each ESG aspect and KPI. • A prioritised list of material ESG-related issues was developed for the next step.

Step 3: Validation
To finalise the list of material issues, the outcomes of steps 1 and 2 were brought forward for discussion with the Company's senior management which confirmed the list of material KPIs for disclosure in this Report.

(c) Sustainability Governance

The ESG working group was established to plan and coordinate ESG initiatives within the Company. Comprised of representatives from different departments of the Company, the working group discussed ESG topics during the year, including energy efficiency, waste reduction and product responsibility. The senior management is responsible for reporting the overall progress of ESG initiatives and performance to the Board.

Overseen by the Board, the risk management of the Company combines a top-down strategic view with a bottom-up operational process. ESG-related risks are also considered and regularly reviewed, evaluated and monitored in accordance with the Company's risk management process and internal control systems. Please refer to the Corporate Governance Report on pages 29 to 41 of this Annual Report for more details.

2 Engaging Customers and Suppliers

As a prominent department store operator in Hong Kong, we are dedicated to ensuring our customers enjoy their shopping experience in a pleasurable and harmonious environment. We also aim to achieve a high level of customer satisfaction through the continuous delivery of high quality products and services.

Maintaining a positive working relationship with all suppliers is crucial to achieving our product quality goals and overall operational efficiency. Our supply chain partners include direct merchandise suppliers, consignment and concessionaire counters, as well as other organisations that contribute significantly to Citistore's daily operations. We monitor and engage with them all in respect of their ESG impacts.

(a) Customer First

Using the "Citistore" brand, the Company's department store business operates in six major residential districts in Hong Kong. Citistore is a diversified department store which provides a varied and plentiful merchandising mix to satisfy customer needs, complemented by excellent customer service. The Company's people-oriented outlook is represented in the Citistore logo, an abstract representation of human figures in four bright colours, which expresses our mission of adding colour to customers' lives.

CITISTORE
千色

A "Customer First" philosophy underpins everything the Company does with a primary emphasis on providing customers with quality services and merchandise that deliver a quality lifestyle, elevating their living standards. To embed this philosophy in daily operations, we have adopted the **"Three Qs Missions"**:

Quality Services	Quality Merchandise	Quality Lifestyle
We aim at offering quality services so as to let customers find their shopping enjoyment in Citistore.	Our diversified merchandising mix provides customers with various and better choice of their necessities at a reasonable price.	Our quality services and quality merchandises intend to raise the quality of living standard for the general public.

We are constantly innovating our delivery of services to enhance the customer's shopping experience. This year, Citistores in Ma On Shan and Tseung Kwan O were renovated with a restructured environment to improve customers' comfort while shopping. Following the renovations, both stores introduced customers to "CITIZEN'S EDIT", a concept brand focused on presenting new fashion from around the region and Hong Kong to the youth market.

To ensure that we deliver top quality products to our customers, important details such as the label, packaging, and expiry dates of all products are checked upon arrival. Department heads are notified immediately if any discrepancies are discovered. When placing a product in a store, we pay attention to shelf arrangement and inventory management to make sure that the shelves do not look crowded and the items are nicely laid out on the shelves. Price tags are normally placed on the right-hand corner, not covering any important information such as the brand name, product description, maintenance details, expiry date and warnings.

The comfort of our customers while shopping is important to us. We provide a clean shopping environment by conducting cleaning services both before and after business hours. Our Engineering Department checks the engine room and air-conditioners three times a day to monitor the indoor temperature and make sure that customers are comfortable as they peruse our stores.

Our efforts are focused on ensuring that shopping in our stores is a pleasant and user-friendly experience for customers.

(b) Product Responsibility

In order to fulfil the Company's "Three Qs Missions", it is of paramount importance to source and provide products and services in a responsible manner and in accordance with all related laws and regulations. This responsibility extends to the Company's suppliers who are required to strictly adhere to all relevant laws and regulations related to their products[i].

We acknowledge and work to ensure the protection of intellectual property rights. To avoid counterfeit items, the Company pays attention to the products sold by our consignment and concessionaire counters to ensure that products are free from counterfeiting. To further prevent the violation of intellectual property rights, all suppliers and vendors are bound by terms and conditions set out in signed agreements with the Company which stipulate that they are fully responsible for any merchandise delivered and product quality.

Our commitment to provide the best shopping experience for our customers drives the Company's continuous improvement plans to keep us abreast of changing needs. To understand these needs, the Company collects feedback and suggestions from customers through various channels and mechanisms including social media. Customers are welcome to post comments on the Company's Facebook page where they can also exchange views and interact with other customers. The Facebook page administrator will respond to queries in a timely manner, as necessary.

The Company's engagement with customers includes designated telephone hotlines and email links, as well as rigorous mechanisms to address any complaints. We consider any complaint to be an opportunity for further improvement. It is the Company's goal to investigate and resolve all valid complaints in a timely and effective manner while maintaining confidentiality. During the process, the Company keeps complainants informed of the outcomes of the process through a formal written reply via email which explains how the complaint will be resolved.

Note:

i *Trade Descriptions Ordinance (Chapter 362 of The Laws of Hong Kong) for ensuring that all products do not contain any false trade descriptions, forged trademarks, false representations or otherwise contravene the provisions of this ordinance; Food and Drugs (Composition and Labelling) Regulations (Chapter 132W of The Laws of Hong Kong) for ensuring that pre-packaged food products adhere to and comply with this regulation; and Consumer Goods Safety Regulation (Chapter 456A of The Laws of Hong Kong) and Toys and Children's Products Safety Ordinance (Chapter 424 of The Laws of Hong Kong) for ensuring that toys and children's products adhere to and comply with these regulations.*

During the reporting year, a total of 52 written customer complaints were received via e-mail for purchased products and services, which were all resolved according to the established guidelines and procedures. This number has decreased in comparison to the previous year's total of 58 customer complaints.

We enjoy serving customers, strive to satisfy their needs, and aim to create a pleasant shopping experience for customers during every visit. During the reporting year, the Company was heartened to receive 19 thank you letters from customers to show their appreciation for the Company's continuing efforts.

In conducting our business, we are careful to protect customer privacy and only collect the minimum necessary personal information. Personal data collected from the Citistore website, Citistore Membership (Citi-fun), and other channels are stored in the Company's core network protected by an up-to-date firewall and anti-virus software. To further protect the data, it can only be accessed by authorised personnel.

The customer privacy policy is publicly available on the Citistore website at http://www.citistore.com.hk/en/privacy_policy_chi/.

(c) Supply Chain Management

We work with a wide spectrum of suppliers, including direct merchandise suppliers, consignment and concessionaire counters, as well as those providing products and services in relation to information technology, administration and marketing. With a total of about 1,600 suppliers currently on record, the Company understands that working closely with supply chain partners is essential to improving operational efficiency and delivering quality products and services. Therefore, the Company seeks to establish strong, productive, and mutually beneficial long-term relationships with all suppliers, which also help to alleviate any possible risks within the supply chain.

We emphasise the importance of ensuring the quality of our products and services and expect each of our suppliers to meet the specific requirements stipulated in their agreement with the Company. To be included in the approved supplier list, entities are required to conform to the Company's guidelines concerning anti-corruption and bribery, and agree to be bound by the terms and conditions as specified in the vendor agreement prior to formal engagement. For instance, vendors are strictly prohibited to offer any monetary advantage, commodity, gift, lending or borrowing, or entertainment to the Company's employees.

3 Optimising Resource Use

We strive to provide extraordinary shopping experiences to customers whilst consciously managing natural resources and minimising any environmental impacts that may arise from our operations. To put this environmental commitment into practice, the Company introduced an overarching Environmental Policy in 2015 which includes eight principle pledges stipulating the environmental responsibility of each employee and subcontractor. Under the policy, all applicable legal and regulatory requirements regarding environmental protection shall be met, whilst all resources shall be used in an efficient and prudent manner, including fuel, electricity, water and other materials. Environmental considerations are also incorporated into the supply chain and operational management processes. Through the pledges, the Company continues to improve its environmental performance and promote environmental awareness amongst all stakeholders.

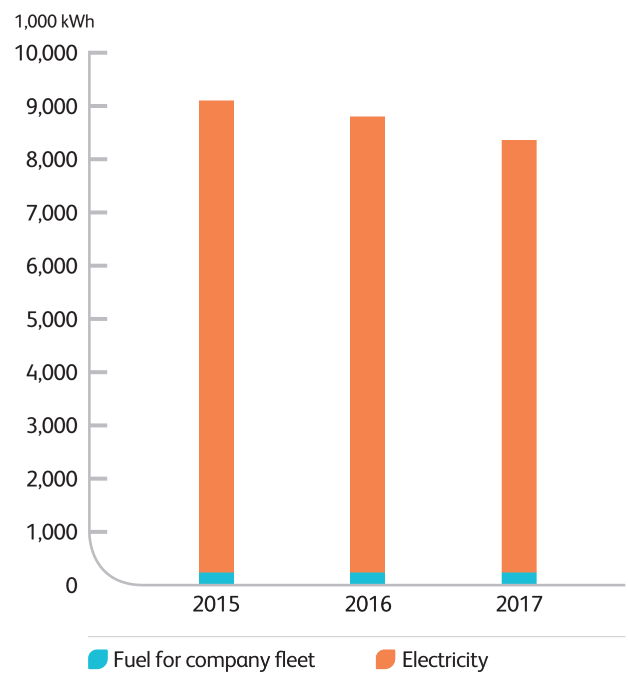
(a) Use of Resources

Energy Conservation

The Company makes a conscious effort to prevent and reduce the use of energy, paper and packaging materials at the Corporate Office, retail stores and all Citistores. To conserve energy, light zoning is adopted and indoor temperature is constantly maintained at 25°C to 26°C. Digital timers have also been installed to prevent unnecessary wastage. By closely monitoring and managing operational energy use, the Company has achieved a 5% reduction of energy consumption compared to the previous year.

This year, the Company continued to support "Earth Hour" organised by Worldwide Fund for Nature ("WWF"). During the campaign, all the external wall and window display lightings were turned off at Citistores in Tsuen Wan and Tai Kok Tsui. We are looking forward to participating in more environmental initiatives in the coming year.

Energy Consumption



Packaging Materials

To address the environmental impacts of plastic shopping bags, the Company has actively partnered with our tenants who operate consignment and concessionaire counters to promote the good habit of "Bring Your Own Bag". Reusable and durable shopping bags are also offered at Citistore to provide customers with a more sustainable option.

Through the concerted efforts of employees, tenants and customers, the total shopping bag consumption at all Citistores fell from 752,707 in 2016 to 703,366 in 2017.

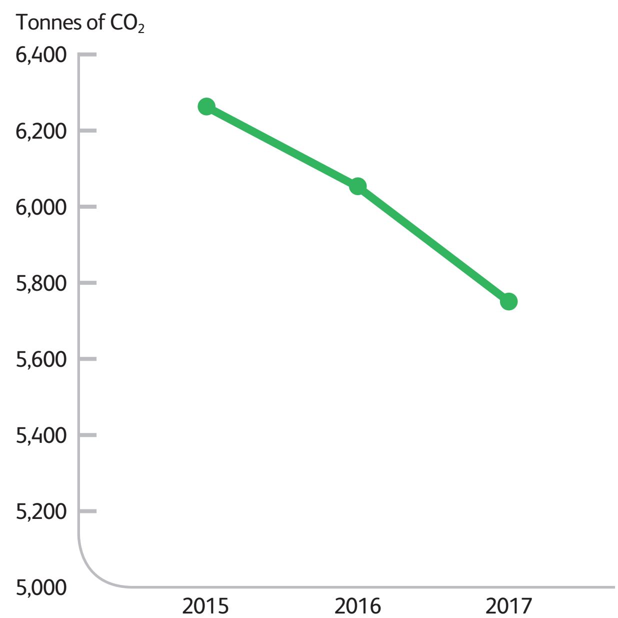
(b) Emissions

Climate Change

With the imminent risks posed by climate change and increasing concerns in the local and international community, one of the principle pledges in the Company's Environmental Policy is to continuously work to reduce energy consumption and greenhouse gas emissions ("GHG") arising from all operations.

Following the renovation of Cititstore in Ma On Shan, Citistore in Tseung Kwan O has also been retrofitted to enhance its energy efficiency performance and approximately 99% of its sales area is now fitted with LED lighting. Through the Company's energy efficiency initiatives and with the spirit of continuous improvement, our GHG emissions have decreased by 5% as compared to last year.

Greenhouse Gas Emissions



Waste Management

To contribute to tackling Hong Kong's waste disposal challenge, the Company aspires to reduce waste generation and actively looks for recycling opportunities in our daily operations. At the Corporate Office, the practice of double-sided printing and reusing one-sided paper has been adopted. The Company also collects electronic equipment such as uninterruptible power supply units, servers and printers for recycling purposes, preventing environmental pollution and adverse health impacts caused by improper handling of electronic waste.

At Citistore, all cardboard boxes are collected and recycled. The Company also seeks opportunities to reuse cardboard boxes in our operations, such as for document storage and customer delivery services. In 2017, more than 452,000 kg of cardboard boxes, representing an increase of 8.7% as compared to that of 2016, and 92 electronic items were collected and recycled.

The Company continued to partner with Greeners Action to collect used red packets from our customers at Citistore for recycling. With these various ongoing waste reduction initiatives at retail locations we will continue to work with our customers to build a zero-waste community.

4 Supporting Our People

In a customer-oriented and people-serving-people business, having a team of dedicated and highly skilled staff is fundamental to delivering a superb shopping experience and providing a selection of good quality products for customers. The Company understands the positive correlation between providing a friendly, collaborative, and bias-free working space and employee productivity. Consequently, with the welfare of employees in mind, we are committed to continuously improving our human resources management at all stages, from recruitment, daily operations, training and development, through to the provision of retirement benefits.

(a) Employment

The Company adopts a holistic human resources management philosophy and follows a standard hiring process and criteria to assess candidates based on merits, skills and qualifications. Employees are supported by the Company to maintain a good work-life balance. For example, we provide our employees with sufficient rest periods and reasonable working hours. Leisure activities, such as an annual dinner, are arranged to boost team spirit, and promote friendship and mutual understanding among employees. Through the Staff Purchase discount, our employees can enjoy affordable quality products and the Citistore shopping experience as customers, helping them to identify opportunities for service improvements. The Company also extends this caring spirit to their families, with annual leave, maternity leave, marriage leave, and compassionate leave offered to help employees fulfil their family responsibilities. Our aim is to provide a working environment where employees feel a sense of belonging and look forward to coming in to work every day.

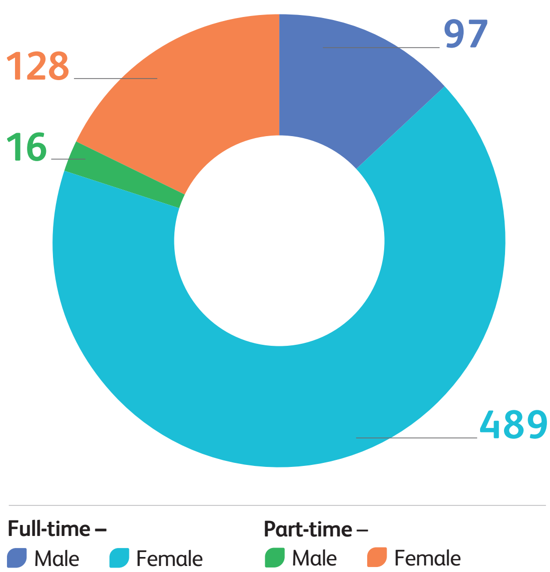
2017 Annual Staff Party

The Company has a tradition of organising an annual staff party. In June 2017, over 630 full-time employees participated in the event and enjoyed a banquet and grand lucky draw. A team of professional singers and dancers provided an entertaining performance, while staff were invited to join a fun game and competition which promoted team work. One of the highlights of the party was the staff service award ceremony during which a range of employees were presented with awards for their dedication, loyalty and contribution to the Company's development.

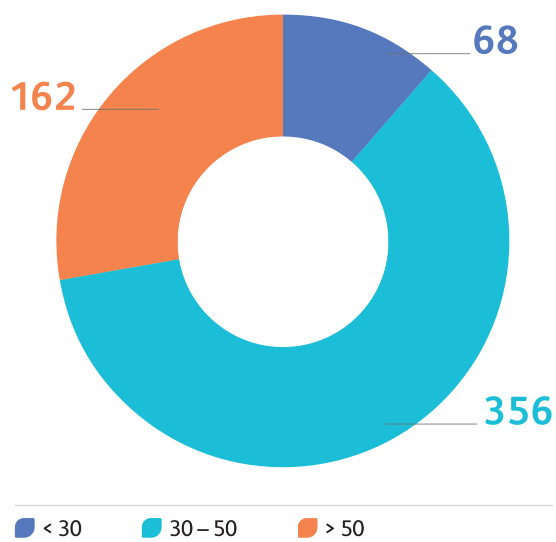
Christmas Party

In December 2017, the Company and management staff co-sponsored a Christmas party at each Citistore to celebrate the festive season and toast to a rewarding year ahead.

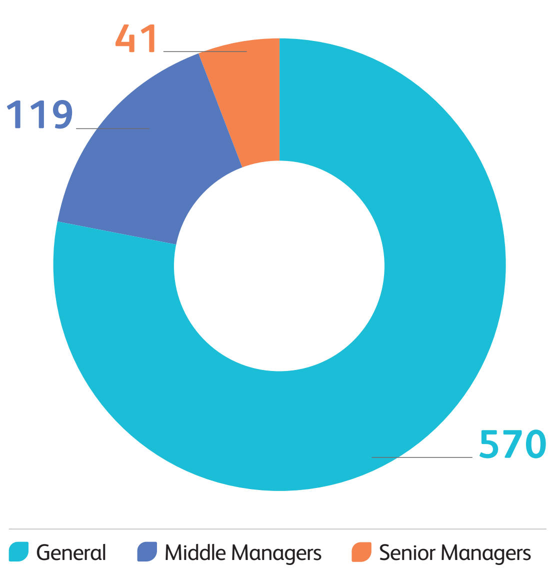
Total workforce in 2017



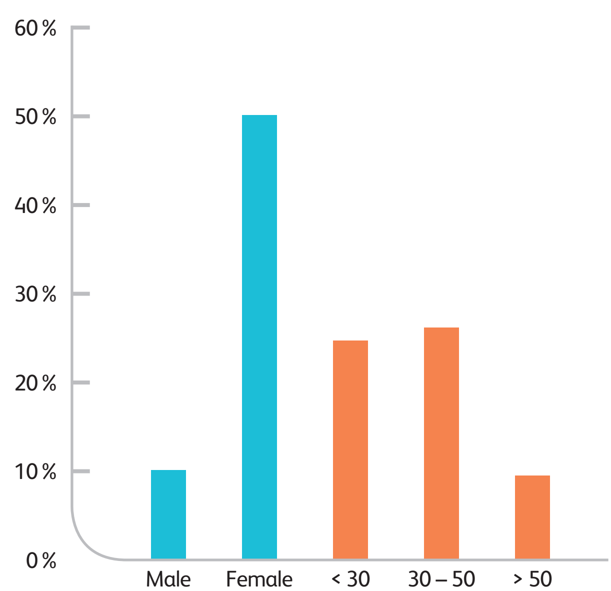
Full-time employees by age



Total workforce by category



Employee turnover rate by gender and age



(b) Development and Training

The Company recognises that promoting growth and enabling professional development go hand-in-hand with the expansion of business and delivering value to shareholders. In 2017, significant effort was spent on developing customised training programmes for staff members at different levels and across various divisions. A variety of new courses targeted at colleagues in various roles and with different responsibilities were developed and delivered by the Company's internal trainer. An Orientation Class for newcomers provided them with details about the Company's operations and familiarised them with the corporate culture and traditions.

With a focus on customer satisfaction, frontline staff and supervisors attended the Service Excellence Course designed and organised by the Company which trained them in customer service skills and aimed to help them to succeed with confidence in their roles at Citistore. This course also equipped them with the tools for assessing the quality of customer service and identifying opportunities for further improvement. One indicator of good customer service is the ability to provide recommendations of suitable products for customers. To deliver this level of service, staff members must have a deep knowledge of the products available at Citistore, market trends and consumer trends. To build Citistore's reputation as the go-to store, the Company organises regular product trainings on aspects such as fashion trends, electrical appliances and baby products. Buyers in the merchandising department attended a tailormade negotiation skills workshop which aimed to help them to continue to source and provide premium products which can satisfy customers' rising expectations.

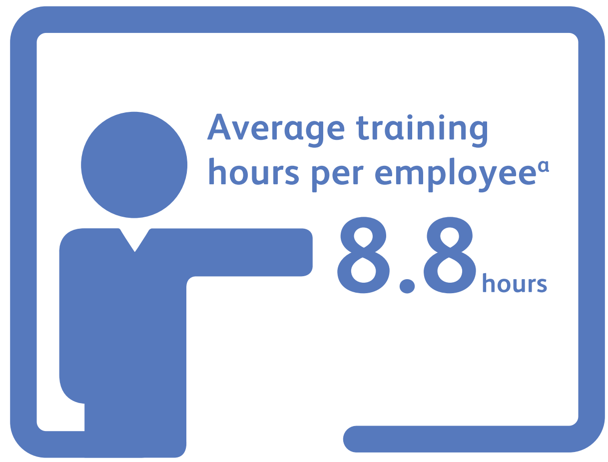
Objectives of the Service Excellence Course

- Understand the essential factors of good customer service
- Know the importance of customer service standard and the impact on a customer's experience
- Manage and apply company service standard to daily operations
- Demonstrate the role and responsibilities of leader in service excellence

The Company also encouraged staff members to apply for external training courses, where appropriate. Some examples included occupational health and safety training, executive leadership skills training, a seminar on the latest e-commence trends, and courses on how to use social media for recruitment.

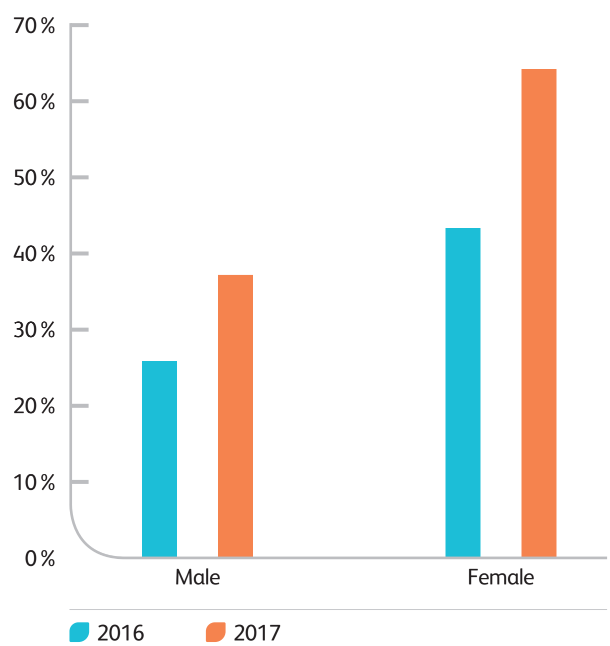
Orientation Class 2017 – Practice: The Importance of Smile in Customer Service

Leading for Excellence 2017 – Game: How to lead your team



[a] *Average training hours per employee = Total training hours ÷ Total number of trained employees*

Percentage of employees trained



(c) Health and Safety

We are committed to providing a safe working environment for our employees, free from any potential occupational hazards. Many health and safety-related initiatives and measures have been introduced into our operations, and safety notices and memos were posted at each Citistore.

The Company also generated awareness among frontline staff members by holding discussion sessions on preventive measures for back pain. Safety training courses on various topics such as First Aid in the Workplace were also organised and related information pamphlets were circulated amongst staff members. If a work-related injury occurs, it will be reported to the Human Resources Department immediately using an incident report form completed by the injured, a witness and the store manager. The Human Resources Department will then report the matter to the Labour Department for further action.

During the reporting year, there were no cases of non-compliance nor cases of occupational safety and health issues that warrant a site inspection by the Occupational Safety and Health (Integrated Service) operation team of the Labour Department.

(d) Ethics and Integrity

The Company is committed to maintaining the highest standards of business ethics and integrity. All employees are required to adhere to the Staff Handbook and anti-corruption policies which prevent any incidences of bribery, extortion, fraud or money laundering. Acceptance of money or any other gifts from outside entities by employees is strictly prohibited under any circumstances.

To further strengthen anti-corruption efforts, a whistle-blowing policy was introduced in 2017. The policy encourages employees to report and raise concerns about any suspected misconduct, malpractice, or irregularities in any matters within the Company via a secured communication channel. Any concerns which are raised will be investigated and reported to the management, while protecting the anonymity of the whistleblowers.

During the reporting year, no legal cases regarding corrupt practices were brought against the Company or its employees.

5 Serving Our Community

In addition to delivering the best customer experiences, we are making concerted efforts, together with our community partners, to nurturing a greener community and to promoting increased environmental awareness. The Company's people-oriented spirit is also demonstrated in our commitment to serving the wider community through a broad range of activities focused on recycling, employee volunteerism, charitable donations and joint voluntary activities. During the reporting year, the Company contributed a total donation of HK$188,975 and 289 man hours to the community.

Resources Contributed (e.g. funds or time) to the Focus Areas

Organisations/Beneficiaries	Programmes	Contributions
Green Power	Plastic Shopping Bags Charge Collaborative Platform	Donation of HK$178,625
Green Power	Beach clean-up	Sponsorship of HK$10,350 and 129 man hours
Greeners Action	Red packets collection	Collected and delivered a total of 626 kg of red packets for re-use
Home Market	Technical support to the POS system given by the Management Information Systems team of the Company	160 man hours
Other NGOs (churches, schools, The Salvation Army etc.)	Donations	Donated 953 pieces of clothing, household goods and accessories

Community engagement is vital for cultivating positive relationships and understanding, which extend beyond the Company's daily operations. In 2017, the Company donated a total of HK$178,625 to Green Power to support its Plastic Shopping Bags Charge Collaborative Platform. The Greeners Action red packet recycling campaign provided the Company with the opportunity to collect and deliver a total of 626 kg of red packets for re-use. The Company also donated 953 items of clothing, household goods and accessories to various NGOs, including The Salvation Army, churches and schools.

In addition to in-kind and financial donations, we also applied our professional skills to assist Home Market, a non-profit organisation, with a contribution of 160 man hours of technical support for its Point-Of-Sale ("POS") system. The Company also collaborated with educational institutions and community organisations during the year to make use of stores as venues for experiential learning. For instance, a visit was arranged for kindergarten students to have their first shopping experience at Citistore in Tsuen Wan in March 2017. Another visit was arranged for Hong Chi Morninglight School, an NGO serving students with intellectual disabilities, in which 22 students with their parents and teaching staff paid a visit to Citistore in Yuen Long in November 2017.

"Coastal x Eco Clean Up Actions"

In December 2017, the Company joined hands with Green Power to organise "Coastal x Eco Clean Up Actions" at Starfish Bay in Ma On Shan. A total of 47 volunteers from Citistore participated in the clean up activities. Volunteers were briefed on general guidelines and instructions to pick up refuse from the beach. During the event, volunteers collected a total of 94.3 kg of marine refuse, one third of which was recyclable.

Store Visit for Shopping Experience

In March 2017, we arranged a visit for kindergarten students in Citistore in Tsuen Wan to have their first shopping experience. A guided visit was organised for the students to explore each department of the store, and the students had the first attempt to pay and purchase their products at the cashier counter. All of the students had an enjoyable and memorable shopping experience.

Performance Data Summary

HKEX KPI		Unit	2017			2016		
A. Environmental								
A1.2	**Greenhouse gas emissions in total and intensity**							
	Scope 1 emissions	Tonnes of CO_2	65.0			62.5		
	Scope 2 emissions	Tonnes of CO_2	5,685.2			5,990.4		
	– in total	Tonnes of CO_2	5,750.2			6,052.9		
	– in intensity	Tonnes of CO_2 per FTE[b]	9.8			9.7		
A1.4	**Total non-hazardous wastes produced and intensity**							
	Recycled materials/wastes							
	Cardboard boxes	Kg	452,000			416,000		
	Electronic items	Items	92			/		
A2.1	**Energy consumption and intensity by type**							
	Fuel for company fleet	1,000 kWh	238.7			236.8		
	Electricity	1,000 kWh	8,121.7			8,557.7		
	– in total	1,000 kWh	8,360.4			8,794.5		
	– in intensity	1,000 kWh per FTE[b]	14.3			14.1		
A2.5	**Packaging materials used**							
	Total plastic shopping bags consumption							
	– in total	Number	703,366			752,707		
B. Social								
B1.1	**Total workforce by employment type and gender**		**Male**	**Female**		**Male**	**Female**	
	Full-time	No. of people	97	489		109	514	
	Part-time	No. of people	16	128		7	131	
	Total workforce by employment type and age group		**<30**	**30-50**	**>50**	**<30**	**30-50**	**>50**
	Full-time	No. of people	68	356	162	90	364	169
	Part-time	No. of people	27	59	58	27	56	55
	Total workforce by employee category							
	General	No. of people	570			606		
	Middle Managers	No. of people	119			121		
	Senior Managers	No. of people	41			34		
B1.2	**Employee turnover rate by gender**		**Male**	**Female**		**Male**	**Female**	
		%	10.1	50.1		7.9	45.6	
	Employee turnover rate by age group		**<30**	**30-50**	**>50**	**<30**	**30-50**	**>50**
		%	24.7	26.2	9.5	21.3	23.5	8.7
B3.1	**The percentage of employees trained by employee category and gender**							
	General	%	59.6%			32.8%		
	Middle Managers	%	70.6%			69.4%		
	Senior Managers	%	34.1%			76.5%		
	Male	%	37.2%			25.9%		
	Female	%	64.2%			43.3%		

[b] *The Company's FTE of 2017 is 586 (2016 was 623). FTE: Full-time Equivalent Employees.*

HKEX KPI		Unit	2017			2016		
B3.2	**The average training hours completed per employee by gender**		**Male**		**Female**	**Male**		**Female**
	Number of staff participating in training courses	No. of staff	42		396	30		279
	Total hours trained	Hours	229.5		3,624.5	201.8		1,953.5
	Average training hours completed	Hours	5.5		9.2	6.7		7.0
	The average training hours completed per employee by employee category		**General**	**Middle Managers**	**Senior Managers**	**General**	**Middle Managers**	**Senior Managers**
	Number of staff participating in training courses	No. of staff	340	84	14	199	84	26
	Total hours trained	Hours	3,175.0	601.5	77.5	1,142.8	790.3	222.3
	Average training hours completed	Hours	9.3	7.2	5.5	5.7	9.4	8.6

HKEX ESG Guide Content Index

Aspect	KPI	Description	Page Number	Section/Remarks
A. Environmental				
A1 Emissions	A1	General Disclosure	17-18	
	A1.1	Types of emissions and respective emissions data	/	Not material to The Company
	A1.2	Greenhouse gas emissions in total and intensity	26	
	A1.3	Total hazardous waste produced and intensity	/	Not material to The Company
	A1.4	Total non-hazardous waste produced and intensity	26	
	A1.5	Description of measures to mitigate emissions and results achieved	18	
	A1.6	Description of how hazardous and non-hazardous waste are handled, reduction initiatives and results achieved	18	
A2 Use of Resources	A2	General Disclosure	17	
	A2.1	Direct and/or indirect energy consumption by type and intensity	26	
	A2.2	Water consumption in total and intensity	/	Not material to The Company
	A2.3	Description of energy use efficiency initiatives and results achieved	17	
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results	/	Not material to The Company
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	26	
A3 The Environment and Natural Resources	A3	General Disclosure	18	
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	25	

Aspect	KPI	Description	Page Number	Section/Remarks
B. Social				
B1 Employment	B1	General Disclosure	19	
	B1.1	Total workforce by gender, employment type, age group and geographical region	26	
	B1.2	Employee turnover rate by gender, age group and geographical region	26	
B2 Health and Safety	B2	General Disclosure	23	
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	23	
B3 Development and Training	B3	General Disclosure	21-22	
	B3.1	The percentage of employees trained by gender and employee category	26	
	B3.2	The average training hours completed per employee by gender and employee category	27	
B4 Labour Standards	B4	General Disclosure	/	The Company abides by relevant employment ordinances and statutory requirements of Hong Kong. No relevant cases of non-compliance were recorded
B5 Supply Chain Management	B5	General Disclosure	14-16	
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	16	
B6 Product Responsibility	B6	General Disclosure	14-16	
	B6.2	Number of products and service related complaints received and how they are dealt with	16	
	B6.3	Description of practices relating to observing and protecting intellectual property rights	15	
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	16	
B7 Anti-corruption	B7	General Disclosure	23	
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	23	
B8 Community Investment	B8	General Disclosure	24	
	B8.1	Focus areas of contribution	24-25	
	B8.2	Resources contributed to the focus area	24-25	

Corporate Governance Report

The Board of Directors of the Company (the "Board") is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2017.

1 Commitment to Corporate Governance

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards.

2 Corporate Governance Code

During the year ended 31 December 2017, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. The Company is of the view that it is in the best interest of the Company to let Mr Lee Ka Shing act in the dual capacity as the Chairman and Managing Director given Mr Lee's in-depth expertise and knowledge in business and the Group.

3 Board of Directors

(a) Responsibilities of and Support for Directors

The Board has the responsibility for management of the Company, which includes formulating business strategies, and directing and supervising the Company's affairs, approving interim reports and annual reports, announcements and press releases of interim and final results, considering dividend policy, approving the issue, allotment or disposal, or grant of options, in respect of securities or debentures of the Company and reviewing the effectiveness of the risk management and internal control systems which include reviewing the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Board makes broad policy decisions and has delegated the responsibility for detailed considerations to the standing committee of the Board (the "Standing Committee").

The day-to-day management, administration and operation of the Company are delegated to the management team. The Board gives clear directions to the management as to their powers of management, and circumstances in which the management should report back.

Every Director ensures that he gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his appointment the directorships held in listed companies or nature of offices held in public organisations and other significant commitment, with the identity of such listed companies or public organisations. The Company has also requested Directors to provide in a timely manner any change on such information. Each Director is also required to disclose to the Company his time commitment. The details of the Directors' time commitment are disclosed under the sub-paragraph "Directors' Time Commitment and Trainings" below.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors will be notified of code provision amendment updates in respect of the CG Code so as to be kept abreast of latest code provision requirements and be assisted in fulfilling their responsibilities. The Directors are also provided with monthly updates which contain periodic financials with summaries of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

(b) Corporate Governance Functions

The Board has undertaken the corporate governance functions as required under the CG Code. The terms of reference of the corporate governance functions as set out in the CG Code have been approved by the Board, which are available on the Company's website.

(c) Board Composition

The Board currently comprises eleven members, as detailed below:

Executive Directors	**Independent Non-executive Directors**
Lee Ka Shing *(Chairman and Managing Director)*	Kwong Che Keung, Gordon
Dr Lee Ka Kit *(Vice Chairman)*	Professor Ko Ping Keung
Dr Lam Ko Yin, Colin *(Vice Chairman)*	Wu King Cheong
Dr Lee Shau Kee	Leung Hay Man
Li Ning	Au Siu Kee, Alexander
Lee Tat Man	

The biographical details of the Directors are set out on pages 61 to 64 of this Annual Report. Dr Lee Shau Kee is the father of Dr Lee Ka Kit and Mr Lee Ka Shing, the father-in-law of Mr Li Ning, and the brother of Mr Lee Tat Man. Save as aforesaid, none of the members of the Board is related to one another. A List of Directors and their Role and Function is available on the Company's website.

The term of office of all Non-executive Directors (including Independent Non-executive Directors) has been fixed for a specific term of not more than three years. All Directors are subject to retirement by rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the Articles of Association of the Company ("Articles").

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and at least one-third of its members being Independent Non-executive Directors, with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received confirmation in writing of independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Board considers that each of the Independent Non-executive Directors brings his own relevant expertise to the Board.

(d) Appointment and Re-election of Directors

The Board is empowered under the Articles to appoint any person, as a Director, either to fill a casual vacancy on or to be an additional member of the Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and exercise reasonable care, skill, and diligence would be recommended to the Board for selection. Appointments are first considered by the Nomination Committee in accordance with its terms of reference with due regard to the Company's board diversity policy, and recommendations of the Nomination Committee are then put to the Board for decision.

In accordance with the Articles, new appointments to the Board are subject to re-election at the next following AGM. Furthermore, nearest one-third of the Directors, including those appointed for a specific term, shall retire from office by rotation but are eligible for re-election at the AGM and the Board will ensure that every Director is subject to retirement by rotation at least once every three years. Each Director was appointed by a letter of appointment setting out the key terms and conditions of his appointment.

The appointment of Independent Non-executive Directors adheres to the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules. The following Independent Non-executive Directors have previous/existing directorships falling within the independence guideline in Rule 3.13(4) or Rule 3.13(7) of the Listing Rules, among the factors affecting independence:

(i) Mr Leung Hay Man owns a company ("Consultancy Co") which used to provide general consultancy services to Hong Kong Ferry (Holdings) Company Limited ("HK Ferry"), an associated company of Henderson Land Development Company Limited ("HLD"), the holding company of the Company, for years. The Consultancy Co has stopped providing services to HK Ferry and no service fee has been paid by HK Ferry to it as from June 2012. Given that the consultancy fee paid by HK Ferry was insignificant and immaterial, the Company considers that such services rendered in the past have no bearing on his independence.

(ii) Mr Au Siu Kee, Alexander ("Mr Au") is currently the chairman and a non-executive director of Henderson Sunlight Asset Management Limited ("HSAM"), a subsidiary of HLD and the manager of Sunlight Real Estate Investment Trust ("Sunlight REIT"). Sunlight REIT is regarded as a core connected person of the Company for the purpose of the Listing Rules. As Mr Au plays a non-executive role in HSAM, and Sunlight REIT is not a subsidiary of either of the Company or HLD, the Company considers that such non-executive role in HSAM has no bearing on Mr Au's independence.

(iii) Mr Au is also currently a non-executive director of HK Ferry and Miramar Hotel and Investment Company, Limited, both of which are associated companies of HLD. As he did/does not take part in the day-to-day management of and had/has no executive roles in such companies, the Company considers that his roles in such companies have no impact on his independence as an Independent Non-executive Director.

(e) Board Meetings

(i) Number of Meetings and Directors' Attendance

The Board meets from time to time and at least four times a year to discuss and exchange ideas on the affairs of the Company. During the year ended 31 December 2017, the Board held four meetings to approve interim/final results announcements and interim/annual reports, to determine the level of dividends, to discuss significant issues and the general operation of the Company and to approve matters and transactions specifically reserved to the Board for its decision. The attendance of the Directors is set out in the table on page 36.

During the year, the Independent Non-executive Directors held a meeting among themselves. In addition, the Chairman held a meeting with the Independent Non-executive Directors without the Executive Directors being present in accordance with the CG Code.

(ii) Practices and Conduct of Meetings

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Meeting agenda and accompanying Board papers are sent to all Directors in a timely manner and at least three days before the Board/committee meetings.

The Company Secretary of the Company is responsible to take and keep minutes of all Board and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final signed version is open for Directors' inspection with copies sent to all Directors for their records.

(f) Conflict of Interest

If a Director has a material interest in a matter to be considered by the Board, a physical meeting will be held to discuss the matter instead of seeking Directors' written consent by way of circulation of written resolution. In accordance with the Articles, such Director who is considered to be materially interested in the matter shall abstain from voting and not be counted in the quorum.

(g) Director's and Officer's Liability Insurance

The Company has arranged director's and officer's liability insurance to indemnify the Directors and senior management against any potential liability arising from the Company's business activities which such Directors and senior management may be held liable.

The Company also keeps Directors indemnified against any claims to the fullest extent permitted by the applicable laws and regulations arising out of the Directors' proper discharge of duties except for those attributable to any gross negligence or wilful misconduct.

(h) Directors' Time Commitment and Trainings

The Company has received confirmation from each Director that he had given sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies and organisations and an indication of the time involved. Directors are encouraged to participate in professional, public and community organisations. They are also reminded to notify in a timely manner the Company of any change of such information. In respect of those Directors who stand for re-election at the 2018 AGM, all their directorships held in listed public companies in the past three years are set out in the Circular of general mandates. Other details of Directors are set out in the biographical details of Directors on pages 61 to 64 of this Annual Report.

During the year, arrangements were made for speakers delivering talks and presentations to Directors of the Company on relevant topics with emphasis on the roles, functions and duties of directors as well as corporate governance. Legal and regulatory updates are provided from time to time to the Directors for their reading. Directors are also encouraged to attend outside talks and seminars to enrich their knowledge in discharging their duties as a director. On a regular basis, information on seminars organised by professional bodies are provided to the Directors, and the seminar enrolments are handled by the company secretarial department.

According to the training records provided by the Directors to the Company, they participated in continuous professional development in 2017 which comprised attending seminars and talks, and reading legal and regulatory updates and other reference materials. The seminars and talks involved topics on corporate governance, directors' duties and responsibilities, information technology, regional economic development, etc. During the year, the trainings undertaken by the Directors are summarised as follows:

	Attending Seminars, Talks and Briefings	Reading Legal and Regulatory Updates and other Reference Materials
Executive Directors		
Lee Ka Shing *(Chairman and Managing Director)*	✓	✓
Lee Ka Kit	✓	✓
Lam Ko Yin, Colin	✓	✓
Lee Shau Kee	✓	✓
Li Ning	✓	✓
Lee Tat Man		✓
Independent Non-executive Directors		
Kwong Che Keung, Gordon	✓	✓
Ko Ping Keung	✓	✓
Wu King Cheong	✓	✓
Leung Hay Man		✓
Au Siu Kee, Alexander	✓	✓

4 Board Committees

The Board has four Board Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. The Standing Committee of the Board operates as a general management committee with delegated authority from the Board.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(a) Audit Committee

The Audit Committee was established in December 1998 and reports to the Board. The members of the Audit Committee are:

Independent Non-executive Directors
Kwong Che Keung, Gordon *(Chairman)*
Professor Ko Ping Keung
Wu King Cheong
Leung Hay Man
Au Siu Kee, Alexander

The Chairman and Mr Au Siu Kee, Alexander have the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee was a former partner of the Company's existing external auditor within one year immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgement in conducting the business of the Committee.

The written terms of reference also include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and risk management and internal control systems. The terms of reference of the Audit Committee are available on the Company's website.

The Audit Committee held three meetings during the year ended 31 December 2017. The major work performed by the Audit Committee in respect of the year ended 31 December 2017 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2017, reviewing the audited financial statements and final results announcement for the year ended 31 December 2016, reviewing the work of the Group's audit department and assessing the effectiveness of the Group's systems of risk management and internal control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, training programmes and budget.

(b) Remuneration Committee

The Remuneration Committee which was established in January 2005 comprises:

Executive Directors	Independent Non-executive Directors
Lee Ka Shing	Wu King Cheong *(Chairman)*
Dr Lam Ko Yin, Colin	Kwong Che Keung, Gordon
	Professor Ko Ping Keung

Each member is sufficiently experienced and is appropriately skilled in the issues of determining executive compensations in public companies. The Board expects the committee members to exercise independent judgement in conducting the business of the committee.

The written terms of reference include the specific duties of determining, with delegated responsibility, the remuneration package of the individual Executive Director and senior management and making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The terms of reference of the Remuneration Committee are available on the Company's website.

During the year ended 31 December 2017, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company and the level of salary increment for 2018 as well as the remuneration of senior management staff and the Directors with reference to the remuneration level of directors of comparable listed companies.

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 9 to the financial statements on pages 93 to 95 while the analysis of the senior management's emoluments by band is set out in note 10 to the financial statements on page 95. At the AGM held on 5 June 2017, the shareholders approved the revised Director's fees as fixed at the rate of HK$50,000 per annum for each Executive Director/Independent Non-executive Director and an additional fee of HK$200,000 per annum for acting as a member of the Audit Committee with effect from 1 July 2017 until the Company in general meetings otherwise determines. Other emoluments shall from time to time be determined by the Board with reference to the Directors' duties and responsibilities and subject to a review by the Remuneration Committee.

(c) Nomination Committee

The Nomination Committee which was established in December 2011 comprises:

Executive Directors	Independent Non-executive Directors
Lee Ka Shing *(Chairman)*	Kwong Che Keung, Gordon
Dr Lam Ko Yin, Colin	Professor Ko Ping Keung
	Wu King Cheong

Each member is sufficiently experienced and is appropriately skilled in the issues of nomination of directors to the Board. The Company has provided the Nomination Committee with sufficient resources to perform its duties. The Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities.

The written terms of reference include the specific duties of reviewing the structure, size and composition of the Board with due regard to the board diversity policy and making recommendation on any proposed changes to the Board to complement the Company's corporate policy. The board diversity policy provides that selection of candidates will be based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The terms of reference of the Nomination Committee are available on the Company's website.

During the year ended 31 December 2017, the Nomination Committee held two meetings to assess the independence of Independent Non-executive Directors of the Company, make recommendation to the Board on the retiring Directors' eligibility for re-election at the AGM and review the size and composition of the Board and the board diversity policy. After the above review, the Nomination Committee considered that the board diversity policy was appropriate and effective.

(d) Attendance Record at Board Meeting, Committees' Meeting and AGM

The attendance of the individual Director at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the AGM during the year ended 31 December 2017 is set out in the following table:

	No. of meetings attended/No. of meetings held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM
Executive Directors					
Lee Ka Shing *(Chairman and Managing Director)*	4/4	N/A	1/1	2/2	1/1
Lee Ka Kit	4/4	N/A	N/A	N/A	1/1
Lam Ko Yin, Colin	4/4	N/A	1/1	2/2	1/1
Lee Shau Kee	3/4	N/A	N/A	N/A	1/1
Li Ning	3/4	N/A	N/A	N/A	0/1
Lee Tat Man	1/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Kwong Che Keung, Gordon	4/4	3/3	1/1	2/2	1/1
Ko Ping Keung	4/4	3/3	1/1	2/2	1/1
Wu King Cheong	4/4	3/3	1/1	2/2	1/1
Leung Hay Man	2/4	2/3	N/A	N/A	0/1
Au Siu Kee, Alexander	4/4	3/3	N/A	N/A	1/1

5 Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 66 to 69.

6 Auditor's Remuneration

For the year ended 31 December 2017, the Auditor(s) of the Company and its subsidiaries agreed to receive approximately HK$1.5 million for audit and audit related services (2016: HK$1.6 million) as well as HK$1.2 million for non-audit services (2016: Nil). The non-audit services rendered were corporate and advisory services.

7 Model Code

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

8 Continuing Connected Transactions

The Independent Non-executive Directors and the Auditor of the Company conducted reviews on the continuing connected transactions as disclosed in the Report of the Directors of this Annual Report (the "Continuing Connected Transactions"). The Audit Department of the Company has reviewed the Continuing Connected Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Continuing Connected Transactions were conducted in accordance with the pricing mechanism under the relevant agreements.

9 Inside Information Policy

The Board approved and adopted the Inside Information Policy in December 2012 which contains the guidelines to the directors, officers and all relevant employees (likely possessing the unpublished inside information) of the Group to ensure that the Inside Information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations. The Inside Information Policy is available on the Company's website.

10 Internal Audit, Risk Management and Internal Controls

Internal Audit

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets.

The Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audits on the major activities of the Company. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. It is also considered that the resources, staff qualifications and experience and training programmes are adequate.

An email link has been set up in the webpage of the intranet of the Company for employees to express their opinions or concerns about the Group's operations directly to the Vice Chairman. In addition, the Company has provided a separate email link on its website, by which stakeholders can freely provide comments and suggestions on the operations of the Company so that proper actions can be taken to address issues being raised.

Risk Management and Internal Controls

The successful management of risks is essential for the long-term growth and sustainability of the Group's business. The Board is responsible for setting strategies, business objectives and risk appetite as well as ensuring a review of effectiveness of the risk management and internal control systems, and overseeing management in the design, implementation and monitoring of the risk management and internal control systems. Management staff of various departments of the Group have provided confirmations to the Board on the effectiveness of such systems.

Risk management is proactive to ensure that significant risks are:

- identified;
- assessed by considering the impacts and likelihoods of their occurrence; and
- effectively managed by identifying suitable controls and countermeasures, and assessing the cost effectiveness of the mitigating actions proposed.

(i) *Approach to Risk Management*

The risk management of the Group combines a top-down strategic view with a bottom-up operational process.

The Board, by top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group.

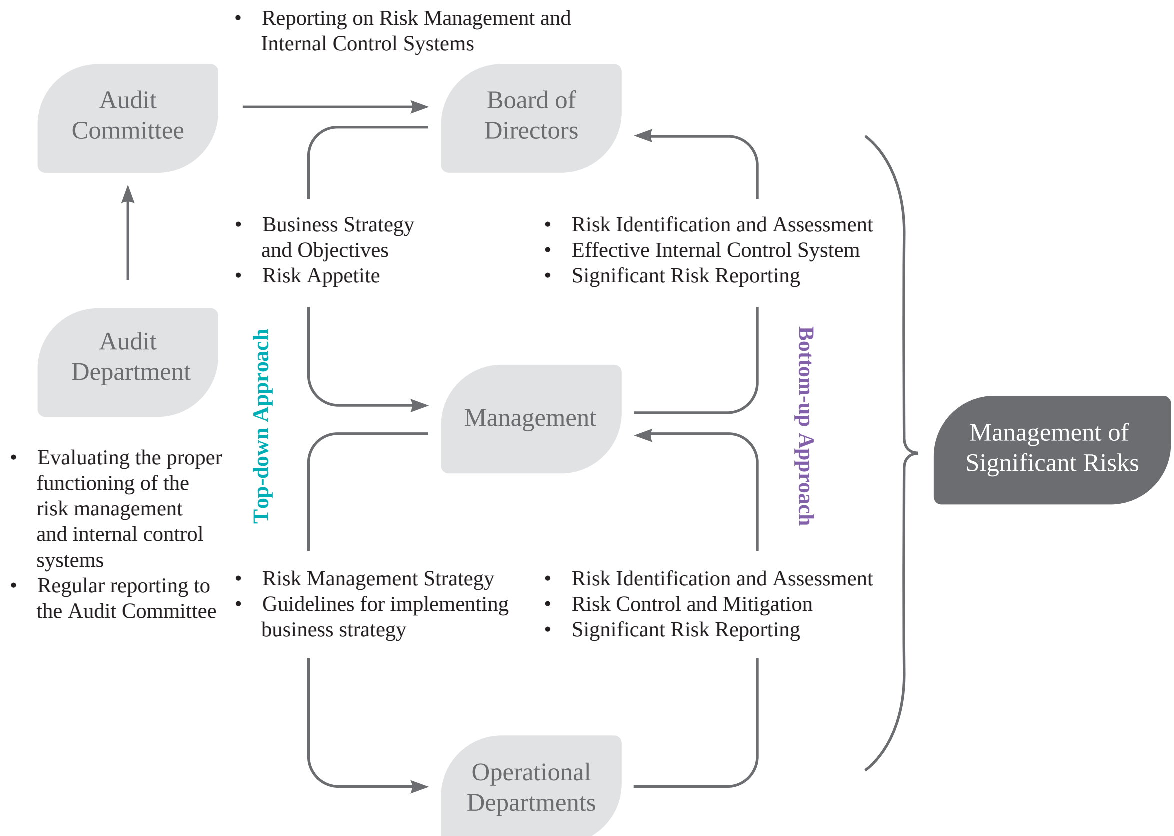
Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The process involves the maintenance of the risk register setting out the particulars of the material risks together with the control measures as reported by significant departments of the Group. This bottom-up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring the significant risks to be considered by the Board in determining the risk appetite.

The terms of reference of the Audit Committee include, among other things, the responsibility of reviewing the risk management and control systems. In addition, a risk management policy has been adopted to serve as a guideline for risk management and internal control systems and such policy is available on the Company's website.

(ii) *Risk Management Reporting and Framework*

The Audit Department performed audits to evaluate the proper functioning of the risk management and internal control systems for the financial year ended 31 December 2017. It is intended to carry out this evaluation process on an ongoing basis. The Audit Committee, after reviewing and considering the risk management findings submitted by the Audit Department, reported and confirmed to the Board that the risk management and internal control systems are effective and adequate.

The diagram below summarises the complementary top-down and bottom-up aspects of the integrated approach of the Group to risk management.



(iii) Significant Risks and Control/Mitigation

Certain significant risks have been identified through the process of risk identification and assessment. A summary on such significant risks of the Group together with the relevant internal control measures or mitigation in place is listed below:

(a) Regulatory and Compliance Risk

The Group is subject to various government policies and regulations on consumer goods safety, food safety and occupational health and safety. If the Group fails to be responsive to changes to such policies and regulations, this could impact the Group's underlying business and ability to deliver its primary objectives.

The Group is committed to complying with the relevant policies, regulations and guidelines applicable to its operations through developing internal guidelines, frequent training to staff, and sufficient time for review process, compliance handling by experienced and professional staff and consultancy with external experts.

(b) *Overstocking and Stock Obsolescence*

Keeping a large amount of inventory on hand can be advantageous in that it reduces the chance of running out of a product, but a large inventory can also have several notable disadvantages such as storage costs, deterioration and obsolescence.

The Group maintains a close dialogue with key suppliers to negotiate on terms for goods purchased on returnable basis and rigorously reviews stock turnover and stock holding period and customer demand to ensure that inventory levels are managed accordingly. The Group may also undertake stock clearance sales activities to avoid further stock obsolescence.

(c) *Intense Competition, Changing Consumer Preferences and Demands*

The Group operates in a highly competitive environment and faces competition from a broad range of organisations including the retail industry players in Hong Kong as well as a vast number of e-commerce operators. A failure to align with changing market dynamics and consumers' expectations could erode the Group's competitive position. Furthermore, the Group's retailing operation is subject to economic conditions.

The Group conducts ongoing evaluation of business performance, formulates sales and promotion strategies to react to the changing market conditions, and obtains updated market information in terms of customer needs through business partners and industry news.

(d) *Image/Reputation Risk*

The Group's reputation is one of its most valuable assets, playing a major part in the continued success of the business. Any possible failure to maintain proper control over the quality of the merchandise may affect the reputation and customer perception of the brand "千色Citistore", which is most valuable to the Group.

The Group looks to employ, train, develop and retain a diverse and talented workforce to cope with and respond to potential complaints promptly, exercising due care in the sourcing of merchandises from reputable and trustworthy suppliers and ensuring proper product quality delivery by conducting proper quality control procedures.

(e) *Information Technology*

The smooth running of the Group's operations is reliant on a complex technical infrastructure. Any computer systems failure may have significant impact on the "Citistore" operations, causing financial loss, data loss, disruption or damage.

The Group manages this risk by employing experienced IT personnel and engaging the services of external consultants as well as keeping back-up files and adopting a disaster recovery plan.

11 Company Secretary

The Company Secretary is to support the Board by ensuring that there is good information flow and the board policy and procedures are strictly followed. The Company Secretary is responsible for advising the Board on governance matters and also facilitating the induction and professional development of Directors.

During the year, the Company Secretary took no less than 15 hours of relevant professional training.

12 Shareholder Rights and Investor Relations

The Board is committed to maintaining an ongoing dialogue with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The AGM of the Company provides a forum for communication between the shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The Chairmen of all Board Committees are invited to attend the AGM. The Chairman of the Board and the Chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the AGM. The Auditor is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence. The Company's policy is to involve shareholders in the Company's affairs and to communicate with them about the activities and prospects face-to-face at the AGM.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders at the general meeting to ensure that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company on the day of the general meeting. Moreover, separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

Under Section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at the general meetings are entitled to send a request to the Company to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the shareholder(s) making it and deposited at the registered office of the Company or sent to the Company's email address at ir@hld.com. Besides, in relation to an annual general meeting which a company is required to hold, Sections 615 and 616 of the Companies Ordinance provide that shareholders representing at least 2.5% of the total voting rights of all shareholders of the company having a right to vote on the resolution at the annual general meeting or at least 50 shareholders having a right to vote on the resolution at the annual general meeting, may request the company to circulate a notice of the resolution for consideration at the annual general meeting, by sending a request, which must be authenticated by the shareholder(s) making it, in a hard copy form or in electronic form. Such request must be deposited at the registered office of the Company or sent to the Company's email address at ir@hld.com. The request made under Section 615 must also identify the resolution of which notice is to be given and be received by the Company not later than six weeks before the AGM to which the request relates, or if later, the time at which notice is given of the AGM.

The Company has maintained a Shareholders' Communication Policy which is available on the Company's website. Shareholders may make enquiries to the Board by contacting the Company either through the Share Registrar's hotline (852) 2980 1333 or email at is-enquiries@hk.tricorglobal.com or directly by raising questions at general meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at http://www.hilhk.com where the Company's announcements and press releases, business developments and operations, financial information, corporate governance report and other information are posted.

Report of the Directors

The Directors have pleasure in submitting to shareholders their annual report together with the audited financial statements for the year ended 31 December 2017.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were investment holding and department store operation, “Citistore”.

Business Review

A review of the business of the Group during the year and a discussion on the Group’s future business development are provided in the Chairman’s Statement on pages 3 to 6 of this Annual Report. Possible risks and uncertainties that the Group may be facing are set out in the Management Discussion and Analysis on pages 8 to 11 and the Corporate Governance Report on pages 29 to 41. Particulars of important events affecting the Group since the end of the financial year (if any) are provided in the Chairman’s Statement on pages 3 to 6 and the Financial Statements on pages 70 to 111. An analysis of the Group’s performance during the year using financial key performance indicators is provided in the Five Year Financial Summary on page 12 of this Annual Report. An environmental policy of the Group has been put in place to give due consideration to environmental issues and minimise the impact of business operations of the Group on environment. In addition, discussions on the Group’s environmental policy and relationships with employees, customers, suppliers and other stakeholders are contained in the Sustainability and CSR and the Corporate Governance Report on pages 13 to 28 and pages 29 to 41 of this Annual Report respectively.

As regards the compliance with the Consumer Goods Safety Ordinance (Cap. 456) and the Trade Descriptions Ordinance (Cap. 362), the quality control of products is monitored by merchandise procurement personnel of Citistore through ongoing negotiation and communications with suppliers, consignors and concessionaires. As per the arrangements with consignors and concessionaires, the liability, if any, for defective products sold by consignment or concessionaires in Citistore is generally borne by the relevant consignors or concessionaires. Most food products sold in Citistore are dry or preserved foods that have long shelf-lives. For complying with the Food Safety Ordinance (Cap. 612), the expiry dates of such food products offered in Citistore are regularly checked in accordance with inventory management procedures, and endeavours are made to ensure that all necessary food licences have been obtained. A policy is put in place for writing off the damaged or aged inventory being not in saleable condition. In addition, Citistore is committed to complying with the relevant intellectual property right laws, maintaining effective control over the quality of merchandise it sells and examining merchandise that it sources or sells by consignment.

The Company has complied with the requirements under the Companies Ordinance (Cap. 622), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Securities and Futures Ordinance (Cap. 571) for, among other things, the disclosure of information and corporate governance. The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules as the code of dealing in securities of the Company by the Directors.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2017 are set out on page 111.

Group Profit

The profit of the Group for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 70 to 111.

Dividends

An interim dividend of HK 2.0 cents per share was paid on 14 September 2017. The Directors have recommended the payment of a final dividend of HK 2.0 cents per share to shareholders whose names appear on the Register of Members of the Company on Monday, 11 June 2018, and such dividend will not be subject to any withholding tax in Hong Kong.

The proposed final dividend is expected to be distributed to shareholders on Friday, 15 June 2018.

Fixed Assets

Particulars of the movements in fixed assets during the year are set out in note 15 to the financial statements on page 98.

Bank Loans

As at 31 December 2017, the Group had no bank borrowings.

Reserves

Particulars of the movement in reserve of the Company during the year are set out in note 25(b) to the financial statements on page 106.

Share Capital

Details of the Company's share capital are set out in note 25(c) to the financial statements on page 106. There were no movements during the year.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years ended 31 December 2017 are summarised on page 12.

Directors' Emoluments

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 9 to the financial statements on pages 93 to 95.

Directors

The Directors of the Company during the financial year and up to the date of this report were:

Executive Directors	**Independent Non-executive Directors**
Lee Ka Shing *(Chairman and Managing Director)*	Kwong Che Keung, Gordon
Dr Lee Ka Kit *(Vice Chairman)*	Professor Ko Ping Keung
Dr Lam Ko Yin, Colin *(Vice Chairman)*	Wu King Cheong
Dr Lee Shau Kee	Leung Hay Man
Li Ning	Au Siu Kee, Alexander
Lee Tat Man	

Dr Lam Ko Yin, Colin, Dr Lee Shau Kee, Mr Leung Hay Man and Mr Au Siu Kee, Alexander shall retire by rotation at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and the Corporate Governance Code and, being eligible, have offered themselves for re-election.

The list of directors of the subsidiaries of the Company during the financial year and up to the date of this report is available on the Company's website at http://www.hilhk.com under the "Corporate Governance" section.

Disclosure of Interests

Directors' Interests in Shares

As at 31 December 2017, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 of Hong Kong Limited pursuant to the SFO or the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

***Ordinary Shares** (unless otherwise specified)*

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Investment Limited	Lee Shau Kee	1			2,110,868,943		2,110,868,943	69.27
	Lee Ka Kit	1				2,110,868,943	2,110,868,943	69.27
	Lee Ka Shing	1				2,110,868,943	2,110,868,943	69.27
	Li Ning	1		2,110,868,943			2,110,868,943	69.27
	Lee Tat Man	2	6,666				6,666	0.00
Henderson Land Development Company Limited	Lee Shau Kee	3	12,850,138		2,900,646,929		2,913,497,067	72.82
	Lee Ka Kit	3				2,900,646,929	2,900,646,929	72.50
	Lee Ka Shing	3				2,900,646,929	2,900,646,929	72.50
	Li Ning	3		2,900,646,929			2,900,646,929	72.50
	Lee Tat Man	4	182,066				182,066	0.00
Henderson Development Limited	Lee Shau Kee	5			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	6			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	7	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	5				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	6				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	7				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	5				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	6				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	7				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00

***Ordinary Shares** (unless otherwise specified) (continued)*

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
	Li Ning	5		8,190 (Ordinary A Shares)			8,190 (Ordinary A Shares)	100.00
	Li Ning	6		3,510 (Non-voting B Shares)			3,510 (Non-voting B Shares)	100.00
	Li Ning	7		15,000,000 (Non-voting Deferred Shares)			15,000,000 (Non-voting Deferred Shares)	30.00

Save as disclosed above, none of the Directors or Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

Substantial Shareholders' and Others' Interests

As at 31 December 2017, the interests and short positions of every person, other than Directors 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 were as follows:

Long Positions

	No. of shares in which interested	% Interest
Substantial Shareholders		
Rimmer (Cayman) Limited (Note 1)	2,110,868,943	69.27
Riddick (Cayman) Limited (Note 1)	2,110,868,943	69.27
Hopkins (Cayman) Limited (Note 1)	2,110,868,943	69.27
Henderson Development Limited (Note 1)	2,110,868,943	69.27
Henderson Land Development Company Limited (Note 1)	2,110,868,943	69.27
Kingslee S.A. (Note 1)	2,110,868,943	69.27
Banshing Investment Limited (Note 1)	843,249,284	27.67
Markshing Investment Limited (Note 1)	602,398,418	19.77
Covite Investment Limited (Note 1)	363,328,900	11.92
Persons other than Substantial Shareholders		
Gainwise Investment Limited (Note 1)	217,250,000	7.13

Notes:

1. *Of these shares, 843,249,284 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which was 100% held by Henderson Land Development Company Limited ("HL") which in turn was 72.44% held by Henderson Development Limited ("HD"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of HD. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr Lee Shau Kee. Dr Lee Shau Kee was taken to be interested in these shares by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As Director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

2. *Mr Lee Tat Man was the beneficial owner of these shares.*

3. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 12,850,138 shares, and for the remaining 2,900,646,929 shares, (i) 1,198,999,065 shares were owned by HD; (ii) 393,224,710 shares were owned by Richbond Investment Limited which was a wholly-owned subsidiary of HD; (iii) 306,731,747 shares were owned by Cameron Enterprise Inc.; 659,411,516 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 126,361,698 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 116,274,349 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 97,228,930 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; and (iv) 2,414,914 shares were owned by Fu Sang Company Limited ("Fu Sang"). Dr Lee Shau Kee was taken to be interested in HD as set out in Note 1, Fu Sang (all the issued ordinary shares of which were owned by Hopkins as trustee of the Unit Trust) and HL by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As Director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

4. *Mr Lee Tat Man was the beneficial owner of these shares.*

5. *These shares were held by Hopkins as trustee of the Unit Trust.*

6. *These shares were held by Hopkins as trustee of the Unit Trust.*

7. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.*

Share Option Schemes

The Company and its subsidiaries have no share option schemes.

Arrangements to Purchase Shares or Debentures

At no time during the year ended 31 December 2017 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-linked Agreements

No equity-linked agreements entered into by the Company were subsisting as at 31 December 2017 and the Company did not enter into any equity-linked agreements during the year under review.

Interests in Transactions, Arrangements or Contracts and Continuing Connected Transactions

During the year under review, the Group had the continuing connected transactions and arrangements as described under the sections “HLD Tenancy Agreements”, “Framework Agreement” and “Other Continuing Connected Transactions” below with persons who are “connected persons” for the purpose of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”):

HLD Tenancy Agreements

Citistore (Hong Kong) Limited (“Citistore HK”), a wholly-owned subsidiary of the Company, has entered into certain tenancy agreements and licence agreements as tenant with certain subsidiaries of Henderson Land Development Company Limited (“HLD”, together with its subsidiaries, the “HLD Group”) as landlord in respect of the following properties (collectively, the “HLD Tenancy Agreements”):

(i) office premises in KOLOUR • Tsuen Wan I at 68 Chung On Street, Tsuen Wan, New Territories, Hong Kong; and

(ii) various shopping mall premises in the Tsuen Wan, Yuen Long, Ma On Shan, Tseung Kwan O and Tuen Mun districts of Hong Kong in respect of the operations of the department stores operated by the Group (the “Citistore Stores”).

As each of the subsidiaries of HLD is an associate of HLD and thus a connected person of the Company, the entering into of the HLD Tenancy Agreements in accordance with the Framework Agreement as described below constitute continuing connected transactions of the Company and the principal terms thereof are summarised below:

Premises	Term [Note 1] 1st Part of the Fixed Term – Duration and Basic Rent per month	2nd Part of the Fixed Term – Duration and Basic Rent per month	3rd Part of the Fixed Term – Duration and Basic Rent per month	Turnover Rent Provisions
(1) Tsuen Wan Branch of Citistore at KOLOUR · Tsuen Wan II, 67- 95 Tsuen Wan Market Street, Tsuen Wan Town Lot No. 301				
Shop Nos. G9-G12, G/F Agreement Date: 15 October 2014 Lettable Area: 1,893 sq.ft.	1 October 2014 – 30 September 2017 *HK$370,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (on an aggregate basis for all shop premises of the Tsuen Wan Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
Shop Nos. G13-G16 and Shop Nos. G24-G29, G/F; Whole of 1/F; Portion of 2/F; Remaining Portion of 2/F; and Shop Nos. 301-303 on 3/F Agreement Date: 15 October 2014 Lettable Area: 133,469 sq.ft.	1 October 2014 – 30 September 2017 *HK$5,369,444*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (on an aggregate basis for all shop premises of the Tsuen Wan Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
Shop Nos. G18A, G18B, G19-G23, G/F [Notes 1 & 2] Agreement Date: 15 October 2014 Lettable Area: 2,951 sq.ft.	1 May 2015 – 30 September 2017 *HK$490,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (on an aggregate basis for all shop premises of the Tsuen Wan Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable

Premises	Term [Note 1] 1st Part of the Fixed Term – Duration and Basic Rent per month	2nd Part of the Fixed Term – Duration and Basic Rent per month	3rd Part of the Fixed Term – Duration and Basic Rent per month	Turnover Rent Provisions
Shop No. G17, G/F [Notes 1 & 2] Agreement Date: 15 October 2014 Lettable Area: 547 sq.ft.	1 October 2015 – 30 September 2017 *HK$110,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (on an aggregate basis for all shop premises of the Tsuen Wan Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
(2) Yuen Long Branch of Citistore at KOLOUR · Yuen Long, 1 Kau Yuk Road, Yuen Long, New Territories, Yuen Long Town Lot No. 464				
Shop Nos. 1-3, 35-39 and 48-49, 2/F Agreement Date: 15 October 2014 Lettable Area: 4,296 sq.ft.	1 October 2014 – 30 September 2017 *HK$305,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (on an aggregate basis for all shop premises of the Yuen Long Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
Whole of 3/F and 4/F Agreement Date: 15 October 2014 Lettable Area: 47,927 sq.ft.	Phase I: 1 October 2014 – 30 June 2015 *HK$1,128,000* Phase II: 1 July 2015 – 30 September 2017 *HK$1,297,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (on an aggregate basis for all shop premises of the Yuen Long Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
Shop Nos. 31-34, 40-42 and 45-47, 2/F [Notes 1 & 2] Agreement Date: 15 October 2014 Lettable Area: 2,586 sq.ft.	13 November 2015 – 30 September 2017 *HK$275,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (on an aggregate basis for all shop premises of the Yuen Long Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable

Premises	Term [Note 1] 1st Part of the Fixed Term – Duration and Basic Rent per month	2nd Part of the Fixed Term – Duration and Basic Rent per month	3rd Part of the Fixed Term – Duration and Basic Rent per month	Turnover Rent Provisions
(3) Ma On Shan Branch of Citistore at Sunshine City Plaza, Ma On Shan, Sha Tin Town Lot No. 307 [Note 6]				
Shop No. 3048, Level 3 [Note 1] Agreement Date: 15 October 2014 Lettable Area: 53,913 sq.ft. (having moved to the Relocated Premises as mentioned below starting from January 2017 and surrendered to landlord in February 2017)	1 July 2015 – 30 September 2017 *HK$1,448,000* *(as adjusted to HK$1,425,999 up to February 2017)*	Not applicable	Not applicable	Not applicable
Relocated Premises, Portion of Level 3 [Notes 1, 4 & 6] Agreement and Supplemental Letter Dates: 15 October 2014 and 21 December 2016 respectively Lettable Area: as adjusted to 62,340 sq.ft. (commencing on 1 November 2016 due to certain renovation works at Sunshine City Plaza)	1 November 2016 – 30 September 2017 *HK$1,433,820*	Phase I: 1 October 2017 – 30 September 2018 *HK$1,534,187.40* Phase II: 1 October 2018 – 30 September 2019 *HK$1,641,412.20* Phase III: 1 October 2019 – 30 September 2020 *HK$1,756,117.80*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover (if higher than the basic rent payable) The turnover rent element shall not apply during the period of renovation works on Level 3, Sunshine City Plaza, and the monthly basic rent shall be reduced by HK$11 per sq.ft. of lettable area
Shop Nos. 3043-44 and 3045-47, Level 3 Agreement Date: 15 October 2014 Lettable Area: 5,997 sq.ft.	1 October 2014 – 30 September 2017 (early terminated in January 2017 in accordance with the relevant relocation agreement) *HK$304,750*	Not applicable	Not applicable	Not applicable
Shop Nos. 2E-89B and 2E-89C, Level 2 [Notes 1 & 3] Agreement Date: 11 October 2016 Lettable Area: 3,360 sq.ft.	19 September 2016 – 18 September 2019 *HK$184,800*	With option to renew a further term of 36 months exercisable by the tenant *Open market rent as agreed between the parties, which shall be no less than HK$184,000 and not more than HK$221,760*	Not applicable	8% of annual turnover (if higher than the basic rent payable)

Premises	Term [Note 1] 1st Part of the Fixed Term – Duration and Basic Rent per month	2nd Part of the Fixed Term – Duration and Basic Rent per month	3rd Part of the Fixed Term – Duration and Basic Rent per month	Turnover Rent Provisions
(4) Tseung Kwan O Branch of Citistore at MCP Central (formerly known as Metro City Phase 2 Shopping Arcade), Tseung Kwan O Town Lot No. 27				
Shop Nos. 2047-51, Level 2 [Notes 2 & 7] Agreement Date: 15 October 2014 Lettable Area: 42,680 sq.ft.	Phase I: 1 October 2014 – 30 November 2014 *HK$861,740* Phase II: 1 December 2014 – 30 September 2017 *HK$947,920*	1 October 2017 – 30 September 2020 *HK$1,184,900*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the monthly basic rent immediately payable prior to the expiration of the second part of the fixed term*	9.5% of annual turnover (on an aggregate basis for all shop premises of the Tseung Kwan O Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
Shop Nos. 2054-56, Level 2 Agreement Date: 15 October 2014 Lettable Area: 12,703 sq.ft.	1 October 2014 – 30 September 2017 *HK$300,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	9.5% of annual turnover (on an aggregate basis for all shop premises of the Tseung Kwan O Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
Shop Nos. 2063-65, Level 2 Agreement Date: 15 October 2014 Lettable Area: 3,392 sq.ft.	1 October 2014 – 30 September 2017 *HK$186,560*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	9.5% of annual turnover (on an aggregate basis for all shop premises of the Tseung Kwan O Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable
Shop Nos. 2052-53, Level 2 [Notes 1 & 3] Agreement Date: 3 July 2017 Lettable Area: 12,893 sq.ft.	10 July 2017 – 9 July 2020 *HK$271,253*	With option to renew a further term to 30 September 2023 exercisable by the tenant *Open market rent as agreed between the parties, which shall be no less than HK$271,253 and not more than HK$311,941*	Not applicable	9.5% of annual turnover (on an aggregate basis for all shop premises of the Tseung Kwan O Citistore Store) Turnover rent payable instead of basic rent if higher than the basic rent payable

Premises	Term [Note 1] 1st Part of the Fixed Term – Duration and Basic Rent per month	2nd Part of the Fixed Term – Duration and Basic Rent per month	3rd Part of the Fixed Term – Duration and Basic Rent per month	Turnover Rent Provisions
(5) Tuen Mun Branch of Citistore at North Wing, Trend Plaza, Tuen Mun Town Lot No. 282				
Portion of L3, North Wing Agreement Date: 15 October 2014 Lettable Area: 17,683 sq.ft.	1 October 2014 – 30 September 2017 *HK$890,000*	1 October 2017 – 30 September 2020 *7% increase in basic rent from the basic rent of each preceding year*	1 October 2020 – 30 September 2023 *Open market rent as agreed between the parties, which shall be no less than the monthly rent immediately payable prior to the expiration of the second part of the fixed term, and no more than 115% of the average of the monthly basic rent payable during the second part of the fixed term*	8% of annual turnover of the Tuen Mun Citistore Store shop premises Turnover rent payable instead of basic rent if higher than the basic rent payable
(6) The Offices of Citistore HK at KOLOUR · Tsuen Wan I, 68 Chung On Street, Tsuen Wan Town Lot No. 328				
Whole of 8/F and 9/F [Note 1] Agreement Date: 15 October 2014 Lettable Area: 22,724 sq.ft. (expressed in terms of gross floor area)	Phase I: 1 October 2014 – 31 July 2015 *HK$386,308* Phase II: 1 August 2015 – 30 September 2017 *HK$420,394*	1 October 2017 – 30 September 2020 *HK$483,567*	Not applicable	Not applicable

Notes:

1. *Except in respect of those tenancy agreements marked with Note 1, all HLD Tenancy Agreements have a fixed term of nine years, from 1 October 2014 to 30 September 2023.*

2. *The tenancy agreements in respect of these premises provide for a rent-free period of 3 months.*

3. *The tenancy agreements in respect of these premises provide for a rent-free period of 2 months.*

4. *The tenancy agreement in respect of these premises provides for a rent-free period of 6 months.*

5. *All basic rents set out in the table above are exclusive of management fees, air conditioning charges, promotional levies and government rates (as applicable), save for the tenancy agreement marked with Note 7. The amounts of the basic rents (including the agreed adjustments of those amounts for subsequent periods after the first part of the fixed term) under the tenancy agreements have been determined after taking into account a number of factors, including the district, size and location of the relevant premises, the anticipated rise in market rental levels, the affordability of the rental to Citistore HK, the contribution of Citistore HK as the major anchor tenant in the relevant shopping mall, and (where applicable) the parties' commitment to a long nine-year tenancy term and the inclusion of turnover rent provisions in the tenancy agreements.*

6. *With regard to the premises of the Ma On Shan branch of the Citistore, by a letter dated 21 December 2016 supplemental to the lease dated 15 October 2014, the basic rent per month payable for the Relocated Premises in respect of the second and third parts of the fixed term is revised as described above as a result of renovation of Sunshine City Plaza as mentioned in Annual Report 2015 of the Company.*

7. *The basic rent for this tenancy agreement is inclusive of management fees, air-conditioning charges and promotion levy (if any).*

8. *The turnover rent as referred to in the respective HLD Tenancy Agreements calculated on the relevant turnover, in case of being lower than the relevant basic rent, shall not be payable.*

Framework Agreement

With a view to ensuring that all tenancy and licensing transactions between relevant members of the HLD Group and Citistore HK comply with Chapter 14A of the Listing Rules, the Company entered into the Framework Agreement with HLD on 15 October 2014, which took effect from 1 December 2014 (being the completion date of the acquisition of the department store operations business by the Company from the HLD Group (the "Completion Date")) and is for a term commencing from the Completion Date to 30 September 2023 (both days inclusive).

The Framework Agreement stipulates that all tenancy and licensing transactions between relevant members of the HLD Group and relevant members of the Group must be (i) on normal commercial terms with reference to prevailing market terms; (ii) in the ordinary and usual course of business of such relevant members of the Group; and (iii) comparable to the rates at which the relevant members of the HLD Group lease or license the use of similar premises to other tenants or licensees which are independent third parties, at or around the relevant time, and will be on terms which are no less favourable to such relevant members of the Group than those offered by members of the HLD Group to its then existing tenants or licensees of similar premises which are independent third parties. Under the Framework Agreement, all the HLD Tenancy Agreements entered into on 15 October 2014, prior to the Completion Date (the "Prior HLD Tenancy Agreements"), are treated and regarded as having been made pursuant to the Framework Agreement from the Completion Date onwards.

Pursuant to the Framework Agreement, it was agreed, among other things, that members of the Group may lease and/or license various premises from members of the HLD Group, as they may mutually agree from time to time.

Each of the Company and HLD will, and will procure their respective subsidiaries to, enter into individual lease and licence agreements in respect of certain premises in Hong Kong during the term thereof on terms that are in line with the terms of the Framework Agreement. Each of such individual lease or licence agreements will set out specific terms of the leases or licences (as applicable), including but not limited to particulars of the premises, rental or licence fees (as applicable) and other fees payable and the payment terms thereof, which shall be determined principally by arms' length negotiations with reference to the prevailing market rents and/or licence fees of similar premises in the relevant areas from time to time.

The terms of each such tenancy or licence agreement made under the Framework Agreement shall be determined according to the following procedures:

(i) In respect of new rental or licensing arrangements between members of the HLD Group and members of the Group, the respective proposed parties to these rental arrangements shall enter into arms' length negotiations.

(ii) In respect of renewal of existing rental or licensing arrangements by the exercise of options in respect of such arrangements, the relevant members of the HLD Group and relevant members of the Group shall negotiate in accordance with the terms and conditions of the existing lease or license regarding the exercise of options.

(iii) During the negotiations with respect to new or renewal rental or licensing arrangements, the relevant members of the HLD Group and the relevant members of the Group shall have regard to the pricing policy as set out in the Framework Agreement (the "Pricing Policy"). Under the Pricing Policy, the rent, licence fees, and other terms of each tenancy and licensing transaction under the Framework Agreement should be determined by taking into account the particular circumstances of the proposed arrangement, including but not limited to the district, vicinity, size and location of the premises concerned, the business to be carried on at such premises, the proposed length of the term of lease or licence, as well as the possible contribution, if any, of the potential tenant to the building or shopping mall in which such relevant premises are located. Such circumstances shall be considered with reference to market comparables as may be obtained from the Land Registry of Hong Kong or from enquiries with property agencies.

(iv) Should the parties to new or renewal rental or licensing arrangements reach a consensus, the relevant tenancy or licence agreement will be finalised and entered into.

The Company has set annual caps for the maximum aggregate amount payable by the Group to the HLD Group under the Framework Agreement (including the amounts payable by the Group under the Prior HLD Tenancy Agreements and those under other tenancy and licensing arrangements that may be entered into with the HLD Group after the Completion Date from time to time):

Annual Caps in respect of all tenancy and licensing transactions for financial years ending 31 December are set out below:

Year	2017	2018	2019	2020	2021	2022	2023[1]
HK$ million	263	280	296	315	338	351	268

Note:

1. *For the financial year ending 31 December 2023, only tenancy and licensing transaction amounts during the period from 1 January 2023 to 30 September 2023 are counted towards and compared with the Annual Cap.*

During the year under review, Citistore HK as tenant /licensee entered into numerous immaterial short-term tenancy agreements/ licences with subsidiaries of HLD Group as landlord/licensor for periods ranging from days to several months relating to certain premises owned by HLD Group for ad hoc purposes at rentals and/or turnover rents totalling HK$517,119 which has been included in the aggregate rents under the Framework Agreement.

For the year ended 31 December 2017, the Group paid HK$222,941,000 representing the aggregate rents under the Framework Agreement (including the Prior HLD Tenancy Agreements) (collectively the "Framework Tenancy Transactions").

Other Continuing Connected Transactions

(A) Tenancy and Licence Agreements entered in with Hong Kong Ferry (Holdings) Company Limited ("HK Ferry") and Miramar Hotel and Investment Company, Limited ("Miramar")

Citistore HK has entered into certain tenancy agreements and licence agreements as tenant with subsidiaries of HK Ferry and Miramar as landlord. As each of HK Ferry and Miramar is an associate of HLD and thus a connected person of the Company, such tenancy agreements and licence agreements constitute continuing connected transactions of the Company and the principal terms thereof are summarised below:

(i) On 28 March 2014, Citistore HK as tenant and Henderson Real Estate Agency Limited (as agent of Lenfield Limited and HKF Property Investment Limited, both being the subsidiaries of HK Ferry) as landlord entered into a tenancy agreement, pursuant to which Citistore HK rented Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, and Shop Nos. 127-161 and corridors and toilets on Level 1 of Metro Harbour Plaza, Tai Kok Tsui, Kowloon, Hong Kong ("MH Plaza") for a term of three years from 1 July 2014 to 30 June 2017 at a fixed monthly basic rent of HK$470,000, together with other ancillary expenses (including a monthly management fee of HK$241,421) and a turnover rent of 7% of the excess (if any) of the annual gross turnover of Citistore HK's business conducted at such premises over HK$120,000,000, which shall be payable monthly in arrears and reconciled on an annual basis. In addition to the management fee, other ancillary expenses include government rates, air-conditioning charges and promotional levy (the "HKF Tenancy Agreement").

(ii) As disclosed in the announcement dated 23 June 2017 (the "2017 Announcement"), the HKF Tenancy Agreement expired on 30 June 2017 and on 23 June 2017, the parties entered into two tenancy renewal offer letters ("HKF Tenancy Renewal Offer Letters") to renew the tenancy of the premises at Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor of the MH Plaza (the "First Premises"), bridge area on Level 1 of the MH Plaza (the "Second Premises"), and Shop Nos. 127-161 and corridors and toilets on Level 1 of MH Plaza (the "Third Premises"). The tenancy in respect of the First Premises and the Second Premises is for a term of one year from 1 July 2017 to 30 June 2018 (which may be early terminated by two months' prior notice) at a fixed monthly basic rent of HK$244,000 and HK$6,000 respectively, together with other ancillary expenses (including a current monthly management fee of HK$138,298 for the First Premises and HK$3,448 for the Second Premises) and a turnover rent of 7% of the excess (if any) of the annual gross turnover of the Citistore HK's business conducted at the First Premises and the Second Premises over HK$50,000,000, which shall be payable monthly in arrears and reconciled on an annual basis. The tenancy in respect of the Third Premises is for a term of three years from 1 July 2017 to 30 June 2020 at a fixed monthly basic rent of HK$238,000, together with other ancillary expenses (including a current monthly management fee of HK$111,475) and a turnover rent of 7% of the excess (if any) of the annual gross turnover of the tenant's business conducted at the Third Premises over HK$70,000,000, which shall be payable monthly in arrears and reconciled on an annual basis. In addition to the management fee, other ancillary expenses include signage licence fee, government rates, air-conditioning charges and promotional levy.

(iii) On 28 March 2014, Citistore HK as licensee and Henderson Real Estate Agency Limited (as agent of Lenfield Limited and HKF Property Investment Limited) as licensor entered into a licence agreement in respect of the licensing of three external wall signages at the MH Plaza (the "HKF Licence Agreement") at a monthly licence fee of HK$1,800 and one signage at the entrance of the MH Plaza at a monthly licence fee of HK$660 for a fixed term of three years from 1 July 2014 to 30 June 2017. This licence agreement lapsed during the year under review upon expiry.

(iv) On 8 October 2014, Citistore HK as tenant and Shahdan Limited, a subsidiary of Miramar, as landlord entered into a tenancy agreement, pursuant to which Citistore HK rented Shop No. 2004, 2nd Floor, Mira Place 1 (formerly known as Miramar Shopping Centre), 132 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong (the "Miramar Tenancy Agreement") for a term of three years from 3 October 2014 to 2 October 2017 at a monthly rent of HK$290,000, together with other ancillary expenses and an additional turnover rent for each period of 12 months, which equals the amount of 10% of the turnover of Citistore HK's business conducted at such premises during the relevant 12 months' period less the annual basic rent for the same 12 months' period (if any). Other ancillary expenses include government rates, air-conditioning charges, management fee and promotional levy. This tenancy agreement was mutually terminated by the parties thereto and the premises was surrendered to the landlord in April 2017.

(B) Cleaning Services Agreement and Gift Certificate Sales Agreement

There were certain continuing transactions between Citistore HK and the HLD Group and associates of HLD, including the provision of cleaning services to Citistore HK by a subsidiary of HLD and the purchase of gift certificates of department stores or shops ("Gift Certificates") by members of the HLD Group and its associates, became continuing connected transactions of the Company upon the Completion Date.

(i) *The Cleaning Services Agreement and New Cleaning Services Agreement*

The master agreement dated 1 December 2014 entered into between the Company and Broad Capital Limited, a member of the HLD Group, in relation to the provision of cleaning services to members of the Group for a term of three years expired on 30 November 2017 (the "Cleaning Services Agreement"). As disclosed in the 2017 Announcement, in order to enable the Group to make arrangements in advance for cleaning services for the stores, shops and other premises operated by the Group, the parties entered into a new master agreement (the "New Cleaning Services Agreement") on 23 June 2017 for a term of three years from 1 December 2017 to 30 November 2020 in relation to the provision of cleaning services to any subsidiary of the Group for fees to be settled on monthly basis. Under both the Cleaning Services Agreement and the New Cleaning Services Agreement, the pricing and terms for transactions made pursuant thereto shall be determined by way of quotations obtained from Broad Capital Limited and from independent third party service providers and the consideration of the price and terms, historical working relationship, experience and the quality of services offered by each of such parties. Broad Capital Limited may be engaged on terms similar to or better than those offered by such other service providers.

(ii) *The Gift Certificate Sales Agreement*

On 1 December 2014, the Company and HLD entered into a master agreement (the "Gift Certificate Sales Agreement") for a term of three years from 1 December 2014 to 30 November 2017, pursuant to which HLD Group and its associates may purchase Gift Certificates from any member of the Group, at prices as from time to time quoted or offered for public purchase of the Gift Certificates. The purchase price of the Gift Certificates is to be settled within three months of the relevant purchase. This agreement lapsed during the year under review upon expiry.

The maximum aggregate amounts payable or receivable by the Group under the transactions as contemplated in the above agreements will not exceed the following caps:

Annual caps for the aggregate amounts payable by the Group or receivable by the Group under the respective agreements	**Financial year ended 31 December 2017 (HK$)**	**Financial year ending 31 December 2018 (HK$)**	**Financial year ending 31 December 2019 (HK$)**	**Financial year ending 31 December 2020 (HK$)**
HKF Tenancy Agreement and HKF Licence Agreement	6,600,000[1]	Not applicable	Not applicable	Not applicable
HKF Tenancy Renewal Offer Letters	7,500,000[2]	11,300,000	8,000,000	4,300,000[3]
Miramar Tenancy Agreement	4,000,000[1]	Not applicable	Not applicable	Not applicable
Cleaning Services Agreement	7,091,000[1]	Not applicable	Not applicable	Not applicable
New Cleaning Services Agreement	700,000[2]	8,600,000	9,430,000	9,506,000[3]
Gift Certificate Sales Agreement	6,000,000[1]	Not applicable	Not applicable	Not applicable

Notes:

1. *These annual caps relate to the period from 1 January 2017 up to the date of expiration of the respective agreements.*

2. *These annual caps relate to the period from the commencement date of the term of the respective agreements up to 31 December 2017.*

3. *These annual caps relate to the period from 1 January 2020 up to the date of expiration of the respective agreements.*

While there was no transaction under the Gift Certificates Sales Agreement, the amounts actually paid by the Group under the transactions as contemplated in the respective agreements mentioned in this paragraph (collectively, the "Other Citistore Transactions") for the year ended 31 December 2017 are set out below:

Amounts actually paid by the Group under the transactions as contemplated in the respective agreements	**For the year ended 31 December 2017 (HK$)**
HKF Tenancy Agreement and HKF Licence Agreement	6,033,000[1]
HKF Tenancy Renewal Offer Letters	6,238,000[2]
Miramar Tenancy Agreement	1,052,000[1]
Cleaning Services Agreement	6,578,000[1]
New Cleaning Services Agreement	622,000[2]

Notes:

1. *These amounts relate to the period from 1 January 2017 up to the date of expiration/termination of the respective agreements.*

2. *These amounts relate to the period from the commencement date of the term of the respective agreements up to 31 December 2017.*

The Audit Department has reviewed the Framework Tenancy Transactions and the Other Citistore Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Framework Tenancy Transactions and the Other Citistore Transactions were conducted in accordance with the pricing mechanism and the terms under the relevant agreements. The Independent Non-executive Directors of the Company have reviewed and confirmed that such transactions are (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) in accordance with the terms of the respective agreements relating to the transactions in question and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor of the Company has also confirmed that nothing has come to the Auditor's attention that causes it to believe that the Framework Tenancy Transactions and the Other Citistore Transactions (a) have not received the approval of the Board; (b) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (c) have exceeded the respective caps as aforesaid.

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 in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. The Company will provide a signed copy of the said letter to the Stock Exchange.

The material related party transactions set out in note 30 to the financial statements on page 109 include transactions that constitute continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as disclosed above, no other transaction, arrangement or contract that is significant in relation to the Company's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had, directly or indirectly, a material interest, subsisted at the year end or at any time during the year.

Directors' Interests in Competing Business

For the year ended 31 December 2017, none of the Directors of the Company has interests in businesses which might compete with the Group.

Service Contracts

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Management Contracts

No contracts (as defined in Section 543 of the Companies Ordinance (Cap. 622)) relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Major Customers and Suppliers

For the year ended 31 December 2017:

(1) the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and

(2) the aggregate amount of revenue attributable to the Group's five largest customers represented less than 30% of the Group's total revenue.

Management Discussion and Analysis

A management discussion and analysis of the Group's annual results is shown on pages 8 to 11.

Sustainability and Corporate Social Responsibility

The report on sustainability and CSR is set out on pages 13 to 28 of this Annual Report and posted on the Company's website.

Retirement Benefits Scheme

Details of the retirement benefits schemes participated by the Group's employees are shown in note 24 to the financial statements on page 104.

Permitted Indemnity

The Articles of Association of the Company provides that every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

In addition, the indemnity agreements made by the Company, which are currently in force and were in force throughout the financial year, contained permitted indemnity provisions (as permitted in Section 469(2) of the Companies Ordinance (Cap. 622)), for the benefit of the Directors of the Company. The Company has also taken out and maintained Director's liability insurance throughout the financial year, which provides appropriate cover for the Directors.

Public Float

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

Auditor

A resolution for the re-appointment of PricewaterhouseCoopers as Auditor of the Company is to be proposed at the forthcoming annual general meeting.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 29 to 41.

On behalf of the Board

Lee Ka Shing
Chairman

Hong Kong, 21 March 2018

Biographical Details of Directors and Senior Management

Executive Directors

LEE Ka Shing, *JP*, aged 46, a Committee Member of the 13th Beijing Committee of the Chinese People's Political Consultative Conference, has been an Executive Director of the Company since 1993 and was the Vice Chairman up to June 2015. On 1 July 2015, he was re-designated from the Vice Chairman to the Chairman and Managing Director of the Company and was appointed as the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. He was educated in Canada. Mr Lee is the vice chairman of Henderson Development Limited ("Henderson Development"). He is also the vice chairman of Henderson Land Development Company Limited ("Henderson Land"), chairman and chief executive officer of Miramar Hotel and Investment Company, Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited, all of which are listed companies. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2017. He is a member of The Court of The Hong Kong Polytechnic University. Mr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development, Henderson Land, Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited and Gainwise Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Dr Lee Ka Kit, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man.

Dr LEE Ka Kit, *GBS, JP, DBA (Hon)*, aged 54, a Member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference, has been an Executive Director and the Vice Chairman of the Company since 1993. He was educated in the United Kingdom and has been primarily responsible for the development of the business of Henderson Land Group in the People's Republic of China since 1985. He is the vice chairman of Henderson Development Limited ("Henderson Development"). He is also the vice chairman of Henderson Land Development Company Limited ("Henderson Land"), as well as a non-executive director of The Hong Kong and China Gas Company Limited and The Bank of East Asia, Limited, all of which are listed companies. He was appointed as a Justice of the Peace in 2009 and was awarded the Gold Bauhinia Star (GBS) in 2015 by the Government of the Hong Kong Special Administrative Region. He is a member as well as the chairman of the Board of Directors of One Country Two Systems Research Institute. He was awarded an Honorary University Fellowship by The University of Hong Kong in 2009 and an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University in July 2014. He is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development and Henderson Land which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Mr Lee Ka Shing, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man.

Dr LAM Ko Yin, Colin, *SBS, FCILT, FHKIoD, DB (Hon)*, aged 66, has been an Executive Director of the Company since 1988 and the Vice Chairman since 1993. He is also a member of the Remuneration Committee and the Nomination Committee of the Company. Dr Lam holds a B.Sc. (Honours) degree from The University of Hong Kong and has over 44 years' experience in banking and property development. He is also the chairman of Hong Kong Ferry (Holdings) Company Limited, the vice chairman of Henderson Land Development Company Limited ("Henderson Land") as well as a non-executive director of The Hong Kong and China Gas Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, all of which are listed companies. Dr Lam was awarded the Silver Bauhinia Star (SBS) by the Government of the Hong Kong Special Administrative Region in 2017. He is the Deputy Chairman of The University of Hong Kong Foundation for Educational Development and Research and a Director of Fudan University Education Development Foundation. Dr Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008, and was conferred with a degree of Doctor of Business (Honoris Causa) by Macquarie University in 2015. He is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors. Dr Lam is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited, Henderson Land, Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited and Gainwise Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Dr the Hon LEE Shau Kee, *GBM, DBA (Hon), DSSc (Hon), LLD (Hon)*, aged 89, is the founder of the Company. He was the Chairman and Managing Director of the Company up to June 2015 and has been engaged in property development in Hong Kong for more than 60 years. He continues to act as an Executive Director of the Company after his stepping down as the Chairman and Managing Director, the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company on 1 July 2015. He is the founder and the chairman and managing director of Henderson Land Development Company Limited ("Henderson Land"), the chairman of The Hong Kong and China Gas Company Limited, the vice chairman of Sun Hung Kai Properties Limited as well as a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all of which are listed companies. Dr Lee was awarded the Grand Bauhinia Medal (GBM) by the Government of the Hong Kong Special Administrative Region in 2007. Dr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited, Henderson Land, Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited and Gainwise Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. Dr Lee is the brother of Mr Lee Tat Man, the father of Dr Lee Ka Kit and Mr Lee Ka Shing and the father-in-law of Mr Li Ning.

LI Ning, *BSc, MBA,* aged 61, Mr Li, has been appointed an Executive Director of the Company since 2014. He holds a B.Sc. degree from Babson College and an M.B.A. degree from the University of Southern California. Mr Li set up the business of Citistore Stores in 1989 and has been managing the business since then in the capacity as a director, being a veteran with 25 years' experience in the department store business. Mr Li is also an executive director of Hong Kong Ferry (Holdings) Company Limited, a listed company. He previously served as an executive director of Henderson Land Development Company Limited until his retirement on 2 June 2015. Mr Li is the son-in-law of Dr Lee Shau Kee, the brother-in-law of Dr Lee Ka Kit and Mr Lee Ka Shing and the relative of Mr Lee Tat Man.

LEE Tat Man, aged 80, has been an Executive Director of the Company since 1972. He has been engaged in property development in Hong Kong for more than 40 years and is also a non-executive director of Henderson Land Development Company Limited ("Henderson Land"), a listed company. Mr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Henderson Land which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Dr Lee Shau Kee and the relative of Dr Lee Ka Kit, Mr Lee Ka Shing and Mr Li Ning.

Independent Non-executive Directors

KWONG Che Keung, Gordon, *FCA*, aged 68, has been an Independent Non-executive Director of the Company since 2004. He is also the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He graduated from The University of Hong Kong with a bachelor's degree in social sciences in 1972 and qualified as a chartered accountant in England in 1977. He was a partner of Pricewaterhouse from 1984 to 1998 and an independent member of the Council of The Stock Exchange of Hong Kong from 1992 to 1997. He is an independent non-executive director of Henderson Land Development Company Limited ("Henderson Land"), Agile Group Holdings Limited, China Power International Development Limited, Chow Tai Fook Jewellery Group Limited, FSE Engineering Holdings Limited, Global Digital Creations Holdings Limited, NWS Holdings Limited, OP Financial Investments Limited and Piraeus Port Authority S.A. (listed in Greece), all of which are listed companies. Mr Kwong previously served as an independent non-executive director of COSCO SHIPPING Holdings Co., Ltd. until 25 May 2017 and CITIC Telecom International Holdings Limited until 1 June 2017. Henderson Land has discloseable interests in the Company under the provisions of the Securities and Future Ordinance.

Professor KO Ping Keung, *PhD, FIEEE, JP,* aged 67, has been an Independent Non-executive Director of the Company since 2004. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Professor Ko holds a Bachelor of Science (Honours) degree from The University of Hong Kong, a Doctor of Philosophy degree and a Master of Science degree from the University of California at Berkeley. He is an Adjunct Professor of Peking University and Tsinghua University and Emeritus Professor of Electrical & Electronic Engineering and the former Dean of the School of Engineering of The Hong Kong University of Science and Technology. He was the Vice Chairman of Electrical Engineering and Computer Science Department of the University of California at Berkeley in 1991 – 1993 and a member of Technical staff, Bell Labs, Holmdel, in 1982 – 1984. Professor Ko is an independent non-executive director of Henderson Land Development Company Limited ("Henderson Land"), Q Technology (Group) Company Limited and VTech Holdings Limited, all of which are listed companies. Henderson Land has discloseable interests in the Company under the provisions of the Securities and Future Ordinance.

WU King Cheong, *BBS, JP,* aged 67, has been an Independent Non-executive Director of the Company since 2005. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr Wu is the Life Honorary Chairman of The Chinese General Chamber of Commerce, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Securities Association Limited. He is an independent non-executive director of Henderson Land Development Company Limited ("Henderson Land"), Hong Kong Ferry (Holdings) Company Limited, Miramar Hotel and Investment Company, Limited and Yau Lee Holdings Limited, all of which are listed companies. Henderson Land has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

LEUNG Hay Man, *FRICS, FCIArb, FHKIS,* aged 83, has been a Director of the Company since 1977 and was re-designated as Non-executive Director in 2004. On 22 August 2012, Mr Leung was re-designated as Independent Non-executive Director of the Company. He is also a member of the Audit Committee of the Company. Mr Leung is a Chartered Surveyor. He is also an independent non-executive director of Henderson Land Development Company Limited ("Henderson Land"), Hong Kong Ferry (Holdings) Company Limited and The Hong Kong and China Gas Company Limited, all of which are listed companies. Henderson Land has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

AU Siu Kee, Alexander, *OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB,* aged 71, has been appointed an Independent Non-executive Director and a member of the Audit Committee of the Company since 2015. He was an Executive Director and the Chief Financial Officer of Henderson Land Development Company Limited ("Henderson Land") from December 2005 to June 2011. He stepped down from the position of Chief Financial Officer and was re-designated as a Non-executive Director of Henderson Land on 1 July 2011. On 18 December 2012, Mr Au was re-designated as an Independent Non-executive Director of Henderson Land until his retirement on 2 June 2015. A banker by profession, Mr Au was the chief executive officer of Hang Seng Bank Limited from October 1993 to March 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from September 1998 to April 2002. He was formerly a non-executive director of a number of leading companies including The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited and Hang Lung Group Limited. Mr Au previously served as an independent non-executive director of The Wharf (Holdings) Limited until 23 November 2017. Currently, Mr Au is an independent non-executive director of Wharf Real Estate Investment Company Limited, and a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all of which are listed companies. He is also the chairman and a non-executive director of Henderson Sunlight Asset Management Limited, a wholly-owned subsidiary of Henderson Land, which is the manager of the publicly-listed Sunlight Real Estate Investment Trust. In the area of community service, Mr Au is a member of the Finance Committee of The Independent Schools Foundation Limited. An accountant by training, Mr Au is a Fellow of The Institute of Chartered Accountants in England and Wales, The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Senior Management

LIU Cheung Yuen, Timon, *BEc, FCPA, CA (Aust), FCS, FCIS,* aged 60, joined the Henderson Land Group in 2005 and is presently the Company Secretary of the Group. Mr Liu graduated from Monash University, Australia with a bachelor's degree in Economics. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries, and an associate of The Institute of Chartered Accountants in Australia. He has many years' experience in accounting, auditing, corporate finance, corporate investment and development, and company secretarial practice.

WONG Wing Kee, Christopher, *BSc (Econ), FCA,* aged 55, joined the Henderson Land Group in 2007 and is presently the General Manager of Accounts Department. Mr Wong graduated from The London School of Economics and Political Science, University of London and is a fellow of The Institute of Chartered Accountants in England & Wales. He has over 30 years of experience in accounting, auditing, investment banking and corporate finance in the United Kingdom and in Hong Kong. Prior to joining the Henderson Land Group, Mr Wong was the Chief Financial Officer of Kerry Properties Limited between December 2004 and May 2007.

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Independent Auditor's Report

羅兵咸永道

To the members of Henderson Investment Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Henderson Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 111, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the audit of the Consolidated Financial Statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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.

The key audit matter identified in our audit is goodwill impairment assessment.

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to note 17 to the consolidated financial statements. As at 31 December 2017, the Group had recognised goodwill of HK$810 million relating to the acquisition of the entire share capital of Camay Investment Limited and its subsidiaries, namely Citistore (Hong Kong) Limited and Puretech Investment Limited (the "Acquisition") in 2014. Citistore (Hong Kong) Limited made profits in the year ended 31 December 2017. Management has concluded that there is no impairment of goodwill. This conclusion was based on the assessment that required significant management judgement with respect to the future growth rates in the pre-tax net cash inflows before capital expenditures of the cash-generating unit and the discount rate.	Our procedures in relation to management's impairment assessment included: • Assessing the valuation methodology used, which is discounted cash flow model, by management to estimate value-in-use; • Evaluating the process by which management's future cash flow forecasts were prepared; • Comparing historical actual results to those budgeted to assess the quality of management's forecast; • Reconciling input data to the budgets approved by management; • Evaluating the key assumptions used in the calculations, comprising future growth rates in the pre-tax net cash inflows before capital expenditures of the cash-generating unit and the discount rate based on the knowledge of the business and industry; and • Assessing management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, either individually or in aggregate, would result in impairment of goodwill. We found the goodwill impairment assessment performed by management to be supportable based on available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of Directors 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. We report 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 scepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with 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.

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 this independent auditor's report is Chu Ho Kwan, Raphael.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2018

Consolidated Statement of Profit or Loss

for the year ended 31 December 2017

	Note	2017 HK$ million	2016 HK$ million
Revenue	5	**834**	871
Direct costs		**(673)**	(687)
		161	184
Other revenue	6	**10**	10
Other income/gain	7	**44**	8
Selling and marketing expenses		**(21)**	(21)
Administrative expenses		**(69)**	(62)
Profit before taxation	8	**125**	119
Income tax	11	**(15)**	(19)
Profit for the year		**110**	100
Attributable to:			
Equity shareholders of the Company		**111**	100
Non-controlling interests		**(1)**	–
Profit for the year		**110**	100
		HK cents	HK cents
Earnings per share			
– Basic and diluted	14	**3.6**	3.3

The notes on pages 75 to 111 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 13.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

	2017 HK$ million	2016 HK$ million
Profit for the year	**110**	100
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
– Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	**2**	(5)
– Reversal of the exchange reserve from equity to profit or loss	**(25)**	–
Total comprehensive income for the year	**87**	95
Attributable to:		
Equity shareholders of the Company	**87**	98
Non-controlling interests	**–**	(3)
Total comprehensive income for the year	**87**	95

The notes on pages 75 to 111 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

at 31 December 2017

	Note	**2017 HK$ million**	2016 HK$ million
Non-current assets			
Fixed assets	15	**90**	101
Trademarks	16	**45**	47
Goodwill	17	**810**	810
Deferred tax asset	23	**1**	2
		946	960
Current assets			
Inventories	18	**59**	61
Trade and other receivables	19	**18**	55
Cash and bank balances	20	**756**	801
		833	917
Current liabilities			
Trade and other payables	21	**269**	305
Amounts due to affiliates	22	**67**	51
Current taxation		**5**	5
		341	361
Net current assets		**492**	556
Total assets less current liabilities		**1,438**	1,516
Non-current liability			
Deferred tax liabilities	23	**8**	14
NET ASSETS		**1,430**	1,502
CAPITAL AND RESERVES			
Share capital		**612**	612
Reserves		**818**	853
Total equity attributable to equity shareholders of the Company		**1,430**	1,465
Non-controlling interests		**–**	37
TOTAL EQUITY		**1,430**	1,502

Approved and authorised for issue by the Board of Directors on 21 March 2018.

Lee Ka Shing
Lee Tat Man
Directors

The notes on pages 75 to 111 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Attributable to equity shareholders of the Company						
	Share capital HK$ million	Capital reserve HK$ million	Exchange reserve HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
At 1 January 2016	612	10	26	841	1,489	41	1,530
Changes in equity for 2016:							
Profit for the year	–	–	–	100	100	–	100
Other comprehensive income for the year	–	–	(2)	–	(2)	(3)	(5)
Total comprehensive income for the year	–	–	(2)	100	98	(3)	95
Final dividend approved in respect of the previous financial year (note 13(b))	–	–	–	(61)	(61)	–	(61)
Interim dividend declared in respect of the current financial year (note 13(a))	–	–	–	(61)	(61)	–	(61)
Advances to non-controlling interests	–	–	–	–	–	(1)	(1)
At 31 December 2016	612	10	24	819	1,465	37	1,502
At 1 January 2017	**612**	**10**	**24**	**819**	**1,465**	**37**	**1,502**
Changes in equity for 2017:							
Profit for the year	**–**	**–**	**–**	**111**	**111**	**(1)**	**110**
Other comprehensive income for the year	**–**	**–**	**(24)**	**–**	**(24)**	**1**	**(23)**
Total comprehensive income for the year	**–**	**–**	**(24)**	**111**	**87**	**–**	**87**
Final dividend approved in respect of the previous financial year (note 13(b))	**–**	**–**	**–**	**(61)**	**(61)**	**–**	**(61)**
Interim dividend declared in respect of the current financial year (note 13(a))	**–**	**–**	**–**	**(61)**	**(61)**	**–**	**(61)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(22)**	**(22)**
Distribution to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(15)**	**(15)**
At 31 December 2017	**612**	**10**	**–**	**808**	**1,430**	**–**	**1,430**

The notes on pages 75 to 111 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2017

	Note	**2017 HK$ million**	2016 HK$ million
Operating activities			
Profit before taxation		**125**	119
Adjustments for:			
Bank interest income	7	**(10)**	(7)
Amortisation of trademarks	8(c)	**2**	2
Depreciation	8(c)	**33**	25
Net gain on winding-up of subsidiaries	7	**(33)**	–
Operating profit before changes in working capital		**117**	139
Decrease in inventories		**2**	5
Decrease in trade and other receivables		**30**	1
(Decrease)/increase in trade and other payables		**(6)**	4
Increase in amounts due to affiliates		**16**	23
Cash generated from operations		**159**	172
Tax paid			
– Hong Kong		**(14)**	(19)
– outside Hong Kong		**(6)**	–
Net cash generated from operating activities		**139**	153
Investing activities			
Interest received		**18**	6
Additions to fixed assets		**(45)**	(23)
Decrease/(increase) in deposits with banks over three months of maturity at acquisition		**625**	(74)
Net cash generated from/(used in) investing activities		**598**	(91)
Financing activities			
Dividends paid to shareholders	13	**(122)**	(122)
Dividend paid to non-controlling interests		**(22)**	–
Distribution paid to non-controlling interests		**(15)**	–
Advances to non-controlling interests		**–**	(1)
Net cash used in financing activities		**(159)**	(123)
Net increase/(decrease) in cash and cash equivalents		**578**	(61)
Cash and cash equivalents at 1 January		**80**	144
Effect of foreign exchange rate changes		**2**	(3)
Cash and cash equivalents at 31 December	20	**660**	80

The notes on pages 75 to 111 form part of these consolidated financial statements.

1 General information

Henderson Investment Limited ("the Company") is incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the Company's registered office and principal place of business is 72-76/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The principal activity of the Company during the year was investment holding and the principal activities of its subsidiaries during the year were investment holding and department store operation.

2 Significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance (Cap. 622) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") is set out below.

(b) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

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

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

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

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

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

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

HKFRS 9 introduces, inter alia, new classification and measurement requirements for financial assets on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, and a new expected credit loss model that replaces the incurred loss impairment model used in HKAS 39, *Financial instruments: Recognition and measurement* ("HKAS 39"). Based on management's initial assessment,

- the classification of its financial assets in accordance with the requirement of HKFRS 9 will not have a material impact on the net assets of the consolidated statement of financial position of the Group; and

- impairment based on expected credit loss model on the Group's trade receivables have no significant financial impacts.

Under HKFRS 15, revenue from sale of goods and provision of services will be recognised when the customer obtains control of the promised goods or services in the contract. Management has initially assessed the impact of the adoption of HKFRS 15 and expects that the implementation of HKFRS 15 would not result in any significant impact on the Group's financial position and results of operation.

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

Under HKFRS 16, a lessee is required to recognise at its inception a right-of-use asset and a lease liability in the statement of financial position, and the related depreciation charge on the right-of-use asset and the related interest expenses on the lease liability in the statement of profit or loss as the distinction between operating and finance leases is removed. The only exceptions are short-term and low value leases. The accounting for lessors will not significantly change. Management has initially assessed that the adoption of HKFRS 16 would affect the leases of properties as a lessee currently classified as operating leases, which would result in an increase in both assets and liabilities and would impact on the timing of recognition in the statement of profit or loss over the period of the leases. As disclosed in note 28(b), a portion of the Group's future minimum lease payments under non-cancellable operating leases is payable between one and five years after the end of the reporting period and after five years from the end of the reporting period. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will perform a more detailed analysis taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

(c) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis.

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

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.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and key sources of estimation uncertainty are discussed in note 3.

2 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in subsidiaries not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

2 Significant accounting policies (continued)

(e) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the aggregate of the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group pursuant to the acquisition (if any). The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The accounting policy for goodwill arising from business combinations is set out in note 2(h).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(f) Fixed assets and depreciation

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(l)).

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Leasehold improvements	Over the unexpired term of lease or their expected useful life of 5 years, whichever is shorter
–	Furniture, equipment and motor vehicles	5 years

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually for indications of impairment.

2 Significant accounting policies (continued)

(g) Trademarks

Trademarks are recognised at fair value at the acquisition date. Trademarks are recognised in relation to the Group's department store operation, and are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Amortisation is provided to write off the cost of the trademarks using the straight-line method over a period of 30 years, commencing from the financial year in which the trademarks are recognised in the Group's consolidated financial statements.

(h) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see note 2(l)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(i) Leased assets

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

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2 Significant accounting policies (continued)

(i) Leased assets (continued)

(ii) Operating lease charges

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

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowances for impairment of doubtful debts (see note 2(l)).

(l) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(i) Impairment of trade and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised. For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- goodwill;
- trademarks; and
- investments in subsidiaries.

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, if determinable.

– Reversal of impairment losses

An impairment loss, except for goodwill, is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period or periods in which the reversals are recognised.

(m) Trade and other payables

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

(n) Cash and cash equivalents

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

2 Significant accounting policies (continued)

(o) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued for in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(p) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which such deferred tax assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether the existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2 Significant accounting policies (continued)

(p) Income tax (continued)

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis, or realise the current tax assets and settle the current tax liabilities simultaneously.

(q) Provisions and contingent liabilities

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

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

2 Significant accounting policies (continued)

(r) Revenue recognition

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

(i) Sale of goods

Revenue arising from the sale of goods from department store operation is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recognised after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rental income is calculated based on the excess of certain percentages of revenue of the relevant operation occupying the shop spaces over a fixed portion of the monthly rentals and are recognised as income in the accounting period in which they are earned.

(iii) Promotion income, sponsorship fees, rental income for antenna site and sundry income

Promotion income, sponsorship fees, rental income for antenna site and sundry income are recognised when services are provided.

(iv) Interest income

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

(s) Translation of foreign currencies

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

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

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

2 Significant accounting policies (continued)

(s) Translation of foreign currencies (continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions applies:

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

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

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

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

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

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

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

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

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

3 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment of receivables

If circumstances indicate that the carrying amounts of receivables may not be recoverable, an impairment loss may be recognised. The carrying amount of a receivable is reviewed regularly in order to assess whether the recoverable amount has declined below the carrying amount. The Group estimates the future cash flows from the receivable with reference to, among others, the age of the receivable, counterparties' creditworthiness and repayment history.

(b) Impairment of non-current assets

If circumstances indicate that the carrying amounts of non-current assets may not be recoverable, the assets may be considered impaired and are tested for impairment. In addition, the recoverable amount of goodwill is estimated annually to evaluate whether or not there is any indication of impairment. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the recoverable amount which requires significant judgements, the Group estimates the future cash flows to be derived from continuing use and ultimate disposal of the asset and applies an appropriate discount rate to these future cash flows.

(c) Recognition of deferred tax asset

At 31 December 2017, the Group has recognised a deferred tax asset in relation to the depreciation in excess of related depreciation allowances as set out in note 23. The realisability of deferred tax asset mainly depends on whether it is probable that future taxable profits will be available against which the related tax benefit under the deferred tax asset can be utilised. In cases where the actual future taxable profits generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in profit or loss in the period in which such a reversal takes place.

4 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are monitored by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

4 Financial risk management and fair values (continued)

(a) Credit risk (continued)

In respect of trade and other receivables, credit terms given to counterparties are generally based on the financial strength and repayment history of each counterparty. Normally, the Group does not obtain collateral from counterparties. Ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise exposure to credit risk. Adequate impairment losses have been made for the estimated irrecoverable amounts.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group does not provide any guarantee which exposes the Group to credit risk.

(b) Liquidity risk

The treasury function of the Group is arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash outflows (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period) and the earliest date on which the Group can be required to pay:

	2017 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$ million	**More than 1 year but less than 2 years HK$ million**	**More than 2 years but less than 5 years HK$ million**	**Total HK$ million**	**Carrying amount HK$ million**
Trade and other payables	**267**	**2**	**–**	**269**	**269**
Amounts due to fellow subsidiaries	**3**	**–**	**–**	**3**	**3**
	270	**2**	**–**	**272**	**272**

	2016 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million
Trade and other payables	302	2	1	305	305
Amounts due to fellow subsidiaries	9	–	–	9	9
	311	2	1	314	314

4 Financial risk management and fair values (continued)

(c) Interest rate risk

At 31 December 2017, the Group did not have any borrowings or liabilities which exposed the Group to significant interest rate risk. The Group monitors closely its interest rate exposure and will consider hedging significant interest rate exposure should the need arise. During the year, the Group did not enter into any interest rate hedging instruments.

(d) Foreign currency risk

At 31 December 2017, there were balances where the denomination is in a currency other than the functional currencies of the Group's entities to which they relate. The impact on the Group's profit after tax and total equity attributable to equity shareholders of the Company is not expected to be material in response to reasonably possible changes in the foreign exchange rates of the other currencies to which the Group is exposed.

(e) Fair values

Financial assets and liabilities are carried at amounts not materially different from their fair values at 31 December 2017 and 2016.

5 Revenue

Revenue represents the sales value of goods to customers, rental income from consignment and concessionaire counters and promotion income recognised by the Group during the year. Revenue is analysed as follows:

	2017 HK$ million	2016 HK$ million
Sale of goods	**410**	434
Rental income from consignment counters (note)	**264**	269
Rental income from concessionaire counters (note)	**153**	161
Promotion income	**7**	7
	834	871

Note: Included total contingent rental income of HK$182 million (2016: HK$188 million) during the year.

During the year, receipts from sale of goods by consignment and concessionaire counters collected by the Group on their behalf are as follows:

	2017 HK$ million	2016 HK$ million
Receipts from sale of goods by consignment counters	**883**	901
Receipts from sale of goods by concessionaire counters	**517**	545
	1,400	1,446

6 Other revenue

	2017 HK$ million	2016 HK$ million
Sponsorship fees	**3**	3
Rental income for antenna site	**4**	4
Sundry income	**3**	3
	10	10

7 Other income/gain

	2017 HK$ million	2016 HK$ million
Bank interest income	**10**	7
Net gain on winding-up of subsidiaries (note)	**33**	–
Sundry income	**1**	1
	44	8

Note: The amount represents the reversal of the Group's attributable share of the exchange reserve of HK$25 million and write-back of accounts payable of HK$8 million upon the winding-up of two subsidiaries, namely, Tianjin Jinning Roads Bridges Construction Development Company Limited and Tianjin Wanqiao Project Development Company Limited, which was completed on 16 November 2017.

8 Profit before taxation

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

		2017 HK$ million	2016 HK$ million
(a)	**Directors' emoluments:**		
	Directors' fees, salaries, allowances and benefits-in-kind	**1**	1
	Details of the directors' emoluments are set out in note 9.		
(b)	**Staff costs (other than directors' emoluments):**		
	Salaries, wages and other benefits	**146**	140
	Contributions to defined contribution retirement plan	**7**	7
(c)	**Other items:**		
	Amortisation of trademarks (note 16)	**2**	2
	Depreciation (note 15)	**33**	25
	Auditors' remuneration		
	– audit services	**2**	2
	– non-audit services	**1**	–
	Operating lease charges in respect of rental premises (note)	**242**	248
	Cost of inventories sold (note 18)	**268**	283
	Rentals receivable less direct outgoings of HK$366 million (2016: HK$354 million)	**(51)**	(76)

Note: The contingent rental expenses were HK$6 million (2016: HK$11 million) during the year.

9 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows:

	2017				
	Directors' fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr Lee Shau Kee	35	–	–	–	35
Dr Lee Ka Kit	35	–	–	–	35
Dr Lam Ko Yin, Colin	35	–	–	–	35
Lee Ka Shing	35	–	–	–	35
Li Ning	35	–	–	–	35
Lee Tat Man	35	–	–	–	35
Independent Non-executive Directors					
Kwong Che Keung, Gordon	35	190	–	–	225
Professor Ko Ping Keung	35	190	–	–	225
Wu King Cheong	35	190	–	–	225
Leung Hay Man	35	190	–	–	225
Au Siu Kee, Alexander	35	190	–	–	225
Total	385	950	–	–	1,335

9 Directors' emoluments (continued)

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows: (continued)

	2016				
	Directors' fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr Lee Shau Kee	20	–	–	–	20
Dr Lee Ka Kit	20	–	–	–	20
Dr Lam Ko Yin, Colin	20	–	–	–	20
Lee Ka Shing	20	–	–	–	20
Li Ning	20	–	–	–	20
Lee Tat Man	20	–	–	–	20
Independent Non-executive Directors					
Kwong Che Keung, Gordon	20	180	–	–	200
Professor Ko Ping Keung	20	180	–	–	200
Wu King Cheong	20	180	–	–	200
Leung Hay Man	20	180	–	–	200
Au Siu Kee, Alexander	20	180	–	–	200
Total	220	900	–	–	1,120

During the years ended 31 December 2017 and 2016, all the emoluments received by the directors of the Company were in respect of their services as directors of the Company and/or its subsidiary undertakings.

During the year ended 31 December 2017 and at 31 December 2017, there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities for disclosure pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance (Cap. 622) and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (2016: None).

During the year ended 31 December 2017 and at 31 December 2017, save as disclosed elsewhere in the consolidated financial statements, there were no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company and his connected entities had a material interest, subsisted at the end of the reporting period or at any time during the year for disclosure pursuant to section 383(1)(e) of the Hong Kong Companies Ordinance (Cap. 622) and Part 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (2016: None).

9 Directors' emoluments (continued)

There was no arrangement under which a director has waived or agreed to waive any emoluments during the current year and the prior year.

Certain of the directors received emoluments from the Company's intermediate holding company for services provided to the Group. No apportionment has been made for the current year and the prior year as the directors are of the opinion that it is impracticable to apportion the amounts between their services to the Company's intermediate holding company and its subsidiaries.

10 Emoluments of five highest paid individuals and senior management

(a) Emoluments of five highest paid individuals

Of the five individuals with the highest emoluments, none of them is a director for both the current year and the prior year. Their emoluments are analysed as follows:

	2017 HK$ million	2016 HK$ million
Salaries, allowances and benefits-in-kind	**5**	5
Discretionary bonuses	**2**	1
Retirement scheme contributions	**–**	–
	7	6

Their emoluments are within the following bands:

	Number of individuals	
	2017	2016
HK$1,000,000 or below	**–**	–
HK$1,000,001 to HK$2,000,000	**5**	5
	5	5

(b) Emoluments of senior management

Other than the emoluments of directors disclosed in note 9, the senior management whose profiles are set out in the section "Biographical Details of Directors and Senior Management" of the Company's annual report for the year ended 31 December 2017 (of which these consolidated financial statements form a part) received no emoluments from the Group during the year (2016: Nil).

11 Income tax

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

	2017 HK$ million	2016 HK$ million
Current tax – Hong Kong		
– provision for the year	**14**	21
Current tax – mainland China		
– provision for the year	**6**	–
Deferred taxation		
– origination and reversal of temporary differences (note 23)	**(5)**	(2)
	15	19

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

Taxation for subsidiaries outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions. In relation to the Group's entities in mainland China, the applicable principal income tax rate for the year ended 31 December 2017 was 25% (2016: 25%).

In addition, dividend distribution out of the retained profits of foreign-invested enterprises earned after 1 January 2008 is subject to withholding income tax at a tax rate of 10% unless reduced by treaty. Under the tax treaty between Hong Kong and mainland China, the withholding income tax rate applicable to the Group for the current year and the prior year is 5%.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017 HK$ million	2016 HK$ million
Profit before taxation	**125**	119
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5% (2016: 16.5%)	**21**	20
Tax effect of non-deductible expenses	**1**	–
Tax effect of non-taxable income	**(7)**	(1)
Income tax	**15**	19

12 Segment reporting

No segmental information for the year ended 31 December 2017 is presented as the Group's revenue and trading results for the year were generated solely from its department store operation in Hong Kong, the revenue of which amounted to HK$834 million (2016: HK$871 million) during the year and the pre-tax profit from operation of which amounted to HK$89 million (2016: HK$116 million) during the year.

Geographical information

Since all of the Group's revenue was generated in Hong Kong during the years ended 31 December 2017 and 2016, and all of the Group's fixed assets, trademarks and goodwill at 31 December 2017 and 2016 were located in Hong Kong, no geographical information on the aforementioned items is presented in accordance with HKFRS 8, *Operating segments*.

13 Dividends

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

	2017 HK$ million	2016 HK$ million
Interim dividend declared and paid of HK2 cents (2016: HK2 cents) per share	**61**	61
Final dividend proposed after the end of the reporting period of HK2 cents (2016: HK2 cents) per share	**61**	61
	122	122

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

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

	2017 HK$ million	2016 HK$ million
Final dividend in respect of the previous financial year, approved and paid during the year of HK2 cents (2016: HK2 cents) per share	**61**	61

14 Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK$111 million (2016: HK$100 million) and 3,047,327,395 (2016: 3,047,327,395) ordinary shares, being the number of ordinary shares in issue throughout the year.

15 Fixed assets

	Leasehold improvements HK$ million	Furniture and equipment HK$ million	Motor vehicles HK$ million	Total HK$ million
Cost:				
At 1 January 2016	91	8	–	99
Additions	49	3	1	53
Disposals	–	(2)	–	(2)
At 31 December 2016	140	9	1	150
Accumulated depreciation:				
At 1 January 2016	25	1	–	26
Charge for the year (note 8(c))	22	3	–	25
Written back on disposals	–	(2)	–	(2)
At 31 December 2016	47	2	–	49
Net book value:				
At 31 December 2016	93	7	1	101
Cost:				
At 1 January 2017	**140**	**9**	**1**	**150**
Additions	**19**	**3**	**–**	**22**
Disposals	**(6)**	**(1)**	**–**	**(7)**
At 31 December 2017	**153**	**11**	**1**	**165**
Accumulated depreciation:				
At 1 January 2017	**47**	**2**	**–**	**49**
Charge for the year (note 8(c))	**30**	**3**	**–**	**33**
Written back on disposals	**(6)**	**(1)**	**–**	**(7)**
At 31 December 2017	**71**	**4**	**–**	**75**
Net book value:				
At 31 December 2017	**82**	**7**	**1**	**90**

16 Trademarks

	2017 HK$ million	2016 HK$ million
Cost:		
At 1 January and 31 December	**51**	51
Accumulated amortisation:		
At 1 January	**4**	2
Charge for the year (note 8(c))	**2**	2
At 31 December	**6**	4
Carrying amount:		
At 31 December	**45**	47

On 1 December 2014, the Company completed its acquisition of the entire issued share capital of Camay Investment Limited and its subsidiaries, namely Citistore (Hong Kong) Limited and Puretech Investment Limited (the "Acquisition"). The Group has adopted the purchase price allocation method under the Acquisition, and has identified trademarks as an identifiable asset measured at fair value at the acquisition date based on the directors' valuation with reference to an independent valuation performed by a professional valuer. A deferred tax liability of HK$8 million (2016: HK$8 million) arising from the fair value adjustment on business combination in 2014 (i.e. in relation to the trademarks) was recognised at 31 December 2017 (see note 23).

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

17 Goodwill

	2017 HK$ million	2016 HK$ million
At 1 January and 31 December	**810**	810

As a result of the Acquisition, goodwill is recognised as an identifiable asset measured at fair value under the acquisition method of accounting in accordance with HKFRS 3 (Revised), *Business combinations*. Goodwill is allocated to the Group's department store operation and is tested for impairment at the end of the reporting period (see note 2(l)(ii)).

17 Goodwill (continued)

Impairment assessment is carried out by determining the value in use of the cash-generating unit(s). The value in use is represented by the net present value of future forecast pre-tax net cash inflows of the cash-generating unit(s) which is determined on the basis of the discounted cashflow model, which assumes:

(i) an increase of 6% in the forecast pre-tax net cash inflow before capital expenditure, and forecast capital expenditure of HK$11 million for the year ending 31 December 2018;

(ii) an increase of 7% in the forecast pre-tax net cash inflow before capital expenditure, and forecast capital expenditure of HK$3 million for the year ending 31 December 2019;

(iii) an increase of 3% in the forecast pre-tax net cash inflow before capital expenditure, and forecast capital expenditure of HK$3 million for the year ending 31 December 2020;

(iv) an increase of 5% in the forecast pre-tax net cash inflow before capital expenditure, and forecast capital expenditure of HK$3 million for the year ending 31 December 2021;

(v) an increase of 5% in the forecast pre-tax net cash inflow before capital expenditure, and forecast capital expenditure of HK$3 million for the year ending 31 December 2022; and

(vi) a terminal value which is determined based on a flat annual forecast pre-tax net cash inflow before capital expenditure, and forecast capital expenditure of HK$18 million subsequent to the year ending 31 December 2022 into perpetuity in accordance with the perpetual growth model.

The abovementioned forecast changes in the pre-tax net cash inflow and the forecast capital expenditure in each of the five financial years ending 31 December 2022, as well as the terminal value, are based on management's expectations of market development. A pre-tax discount rate, which equals to 13.5% (2016: 12.7%), is used to determine the discount factor under the discounted cashflow model.

The Directors have assessed that there was no impairment on goodwill at 31 December 2017.

At 31 December 2017, the recoverable amount calculated based on value in use exceeded the carrying value by HK$149 million (2016: HK$378 million). A rise of the pre-tax discount rate to 15.5% (2016: 17.4%) or a decrease of 13.6% (2016: 28.3%) in the annual forecast pre-tax net cash inflow after capital expenditure for each financial year during the five financial years ending 31 December 2022, both changes taken in isolation, would remove the remaining headroom.

18 Inventories

Inventories in the consolidated statement of financial position comprise:

	2017 HK$ million	2016 HK$ million
Finished goods	**59**	61

The analysis of the amount of inventories recognised as an expense and included in "direct costs" in profit or loss (see note 8(c)) is as follows:

	2017 HK$ million	2016 HK$ million
Carrying amount of inventories sold	**267**	282
Write-down of inventories	**1**	1
	268	283

19 Trade and other receivables

	2017 HK$ million	2016 HK$ million
Trade debtors	**12**	7
Consideration receivable	**–**	40
Deposits, prepayments and other receivables	**6**	8
	18	55

The consideration receivable was repaid to the Group on 2 March 2017.

At 31 December 2017, all of the trade and other receivables were expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade debtors net of allowance for doubtful debts is as follows:

	2017 HK$ million	2016 HK$ million
Current or under 1 month overdue	**12**	7

19 Trade and other receivables (continued)

(b) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

	2017 HK$ million	2016 HK$ million
Neither past due nor impaired	**–**	–
Less than 1 month past due	**12**	7
	12	7

Receivables which were past due but not impaired relate to counter-parties who have a good track record of trading with the Group.

20 Cash and bank balances

	2017 HK$ million	2016 HK$ million
Deposits with banks	**669**	722
Cash at bank and in hand	**87**	79
Cash and bank balances in the consolidated statement of financial position	**756**	801
Less: deposits with banks over three months of maturity at acquisition	**(96)**	(721)
Cash and cash equivalents in the consolidated cash flow statement	**660**	80

None (2016: HK$45 million) of the Group's cash and bank balances at 31 December 2017 was maintained in mainland China and was subject to foreign exchange control regulations.

21 Trade and other payables

	2017 HK$ million	2016 HK$ million
Trade creditors	**209**	209
Accrued expenses and other payables	**48**	84
Rental deposits	**12**	12
	269	305

At 31 December 2017, all of the trade and other payables were interest-free and repayable within one year or on demand except for an amount of HK$2 million (2016: HK$3 million) which was expected to be settled after more than one year.

The ageing analysis of trade creditors of the Group at the end of the reporting period is as follows:

	2017 HK$ million	2016 HK$ million
Due within 1 month or on demand	**191**	190
Due after 1 month but within 3 months	**18**	19
	209	209

22 Amounts due to affiliates

	2017 HK$ million	2016 HK$ million
Amounts due to fellow subsidiaries	**67**	51

At 31 December 2017, all of the amounts due to fellow subsidiaries were unsecured, interest-free and repayable within one year or on demand except for the provision for rental amortisation in the amount of HK$64 million (2016: HK$42 million) included therein.

23 Deferred tax asset and liabilities

The components of deferred tax (asset)/liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred taxation arising from:	Depreciation in excess of the related depreciation allowances HK$ million	Consideration receivable on disposal of toll fee collection right of toll bridges HK$ million	Withholding income tax HK$ million	Fair value adjustment on business combination (note 16) HK$ million	Total HK$ million
At 1 January 2016	(1)	6	1	8	14
Credited to profit or loss (note 11(a))	(1)	–	(1)	–	(2)
At 31 December 2016	(2)	6	–	8	12
At 1 January 2017	**(2)**	**6**	**–**	**8**	**12**
Charged/(credited) to profit or loss (note 11(a))	**1**	**(6)**	**–**	**–**	**(5)**
At 31 December 2017	**(1)**	**–**	**–**	**8**	**7**

	2017 HK$ million	2016 HK$ million
Net deferred tax asset recognised in the consolidated statement of financial position	**(1)**	(2)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**8**	14
	7	12

24 Employee retirement benefits

The Group's employees employed under the jurisdiction of the Hong Kong Employment Ordinance participate in the Group's Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPFO"). The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the Group and the employees are each required to make monthly contributions to the plan at 5% of the employees' monthly relevant income (subject to a cap of monthly relevant income of HK$30,000). Such contributions to the MPF Scheme vest immediately. In addition to the abovementioned minimum contribution, the Group provides certain voluntary top-up benefits to employees participating in the MPF Scheme, subject to a vesting scale. The portion of the employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. No forfeited contributions were utilised during the current year and the prior year. Furthermore, long-time employees of Citistore (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company, receive the benefit of contributions under the Occupational Retirement Schemes Ordinance ("ORSO") due to historical factors.

25 Statement of financial position and movement in reserve of the Company

(a) Statement of financial position

	2017 HK$ million	2016 HK$ million
Non-current asset		
Investment in subsidiaries	**351**	351
Current asset		
Amounts due from affiliates	**1,556**	1,605
Current liabilities		
Trade and other payables	**2**	2
Amounts due to affiliates	**440**	448
	442	450
Net current assets	**1,114**	1,155
NET ASSETS	**1,465**	1,506
CAPITAL AND RESERVES		
Share capital	**612**	612
Reserve	**853**	894
TOTAL EQUITY	**1,465**	1,506

The statement of financial position of the Company was approved by the Board of Directors on 21 March 2018 and was signed on its behalf.

Lee Ka Shing
Lee Tat Man
Directors

25 Statement of financial position and movement in reserve of the Company (continued)

(b) Movement in reserve

	Retained profits HK$ million
At 1 January 2016	914
Movement in reserve for 2016:	
Profit for the year	102
Final dividend approved in respect of the previous financial year (note 13(b))	(61)
Interim dividend declared in respect of the current financial year (note 13(a))	(61)
At 31 December 2016	894
At 1 January 2017	**894**
Movement in reserve for 2017:	
Profit for the year	**81**
Final dividend approved in respect of the previous financial year (note 13(b))	**(61)**
Interim dividend declared in respect of the current financial year (note 13(a))	**(61)**
At 31 December 2017	**853**

(c) Share capital

	The Group and the Company			
	Number of shares		Amount	
	2017 million	2016 million	**2017 HK$ million**	2016 HK$ million
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**3,047**	3,047	**612**	612

(d) Distributability of reserve

At 31 December 2017, the aggregate amount of reserve available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622), was HK$853 million (2016: HK$894 million). As stated in note 13(a), after the end of the reporting period, the directors proposed a final dividend of HK2 cents (2016: HK2 cents) per share, amounting to HK$61 million (2016: HK$61 million). This dividend has not been recognised as a liability at the end of the reporting period.

26 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that the Group can continue to provide financial returns to shareholders, and by securing access to financing sources at reasonable costs.

The Group regularly reviews and manages its capital structure under the policy of prudent financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to its capital structure in the light of remarkable changes in the financial and capital markets and in economic conditions.

The Group monitors its capital structure on the basis of gearing ratio, which is one of the most commonly adopted measurement standards for capital management by companies engaged in business operation such as the department store operation. Gearing ratio is calculated based on the net bank borrowings and shareholders' funds of the Group at the end of the reporting period. At 31 December 2017, the Group maintained net cash and bank balances (after deducting the Group's total bank borrowings of HK$Nil (2016: HK$Nil)) of HK$756 million (2016: HK$801 million) and therefore the Group's gearing ratio was Nil (2016: Nil).

The Group was not subject to externally imposed capital requirements during the year and at the end of the reporting period.

27 Capital commitments

At 31 December 2017, the Group had capital commitments in relation to fixed assets contracted but not provided for in these consolidated financial statements in the amount of HK$Nil (2016: HK$1 million).

28 Significant leasing arrangements

At 31 December 2017, the Group was both a lessor and a lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The Group leases out certain shop spaces under operating leases. The leases typically run for an initial period of one month to five years (2016: one month to five years). Contingent rental income is calculated based on the excess of certain percentages of revenue of the relevant operation occupying the shop spaces over a fixed portion of the monthly rentals.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017 HK$ million	2016 HK$ million
Within 1 year	**102**	117
After 1 year but within 5 years	**8**	20
	110	137

(b) Lessee

The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of three months to nine years (2016: three months to nine years). Contingent rental expense is calculated based on the excess of certain percentages of revenue of the relevant operation over a fixed portion of the monthly rentals.

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 HK$ million	2016 HK$ million
Within 1 year	**235**	227
After 1 year but within 5 years	**920**	918
After 5 years	**167**	400
	1,322	1,545

29 Contingent liabilities

At 31 December 2017 and 2016, the Group did not have any contingent liabilities.

30 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions during the year:

(a) Transactions with fellow subsidiaries (note (i))

Details of material related party transactions during the year between the Group and its fellow subsidiaries are as follows:

	2017 HK$ million	2016 HK$ million
Rental expenses payable (note (ii))	**223**	227
Cleaning expenses payable	**7**	6
Car park expenses payable	**1**	1

(b) Transactions with related companies (note (i))

Details of material related party transactions during the year between the Group and its related companies, being the associated companies of an intermediate holding company, are as follows:

	2017 HK$ million	2016 HK$ million
Rental expenses payable (note (iii))	**14**	16

Note (i): *In the opinion of the directors, these transactions were carried out on normal commercial terms and in the ordinary course of business.*

Note (ii): *Including management fees, air-conditioning charges and rates of HK$48 million (2016: HK$46 million) for the year ended 31 December 2017.*

Note (iii): *Including management fees, air-conditioning charges and rates of HK$7 million (2016: HK$7 million) for the year ended 31 December 2017.*

31 Movements in the carrying amounts of items relating to financing activities

	Interim dividend for 2017 payable (note 13(a)) HK$ million	Final dividend for 2016 payable (note 13(b)) HK$ million	Total HK$ million
At 1 January 2017			
Recognition during the year	**61**	**61**	**122**
Payments	**(61)**	**(61)**	**(122)**
At 31 December 2017	**–**	**–**	**–**

32 Non-adjusting event after the reporting period

After the end of the reporting period, the directors proposed a final dividend, further details of which are set out in note 13(a).

33 Parent and ultimate controlling party

At 31 December 2017, the directors consider that the Company's parent and ultimate controlling party are Kingslee S.A. (a private limited liability company incorporated in the Republic of Panama) and Henderson Development Limited (a private limited liability company incorporated in Hong Kong), respectively. These entities do not produce financial statements available for public use.

The parent of Kingslee S.A. is Henderson Land Development Company Limited ("HLD"), a public limited liability company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. HLD produces consolidated financial statements, including those of the Group, which are available for public use.

Principal Subsidiaries

At 31 December 2017

Set out below are the particulars of the principal subsidiaries of the Company at 31 December 2017 which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group. All the principal subsidiaries are incorporated and operate in Hong Kong unless otherwise stated. None of the principal subsidiaries had debt securities in issue at the end of the reporting period.

		Particulars of issued share capital	Percentage of shares held by the Company	
		HK$ (unless otherwise stated)	Directly	Indirectly
A	Department store operation			
	Citistore (Hong Kong) Limited	1	–	100
B	Investment holding			
	China Investment Group Limited	300,000,000	–	100
	Henderton Profits Limited	1	–	100
	Luxrich Limited (incorporated and operates in the British Virgin Islands)	US$10	80	20
	Nation Team Development Limited	2	–	100
	Prominence Development Limited	1	–	100
C	Finance			
	Henderson Investment Finance Limited	100,000	100	–
	St. Helena Holdings Co. Limited (incorporated and operates in the British Virgin Islands)	US$3	100	–

Corporate Information

Board of Directors

Executive Directors

Lee Ka Shing *(Chairman and Managing Director)*
Dr Lee Ka Kit *(Vice Chairman)*
Dr Lam Ko Yin, Colin *(Vice Chairman)*
Dr Lee Shau Kee
Li Ning
Lee Tat Man

Independent Non-executive Directors

Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong
Leung Hay Man
Au Siu Kee, Alexander

Audit Committee

Kwong Che Keung, Gordon*
Professor Ko Ping Keung
Wu King Cheong
Leung Hay Man
Au Siu Kee, Alexander

Remuneration Committee

Wu King Cheong*
Lee Ka Shing
Dr Lam Ko Yin, Colin
Kwong Che Keung, Gordon
Professor Ko Ping Keung

Nomination Committee

Lee Ka Shing*
Dr Lam Ko Yin, Colin
Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong

Company Secretary

Liu Cheung Yuen, Timon

* *Committee Chairman*

Registered Office

72-76/F., Two International Finance Centre
8 Finance Street, Central
Hong Kong
Telephone : (852) 2908 8888
Facsimile : (852) 2908 8838
Internet : http://www.hilhk.com
E-Mail : henderson@hld.com

Share Registrar

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited (Stock Code: 97)
Shares are also traded in the United States through an American Depositary Receipt Level 1 Programme
(Ticker Symbol: HDVTY
CUSIP Reference Number: 425070109)

Authorised Representatives

Dr Lam Ko Yin, Colin
Liu Cheung Yuen, Timon

Auditor

PricewaterhouseCoopers

Solicitors

Woo Kwan Lee & Lo
Lo & Lo

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at the Four Seasons Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Friday, 1 June 2018 at 11:00 a.m. to transact the following business:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditor for the year ended 31 December 2017.

2. To declare a Final Dividend.

3. To re-elect retiring Directors.

4. To re-appoint Auditor and authorise the Directors to fix the Auditor's remuneration.

5. To consider as special business and, if thought fit, pass the following resolutions as Ordinary Resolutions:

   (A) "**THAT:**

   (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to buy back shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Stock Exchange and the Securities and Futures Commission for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

   (b) the aggregate number of shares of the Company to be bought back pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the total number of the issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period) and the said approval shall be limited accordingly; and

   (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

   (i) the conclusion of the next Annual General Meeting of the Company;

   (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) to be held; and

   (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the Shareholders in general meeting."

(B) "**THAT:**

(a) a general mandate be and is hereby generally and unconditionally given to the Directors to exercise during the Relevant Period (as defined in paragraph (b) of this Resolution) all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements or options (including, without limitation, Rights Issue (as defined in paragraph (b) of this Resolution), warrants, bonus warrants, bonds, debentures, notes and other securities convertible into shares in the Company) which would or might require the exercise of such powers either during or after the Relevant Period, provided that the aggregate number of the shares of the Company to be allotted, issued and dealt with pursuant to the general mandate herein, otherwise than pursuant to (i) a Rights Issue, or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or (iii) an issue of shares in the Company upon the exercise of the subscription rights or conversion rights attaching to any warrants or convertible notes which may be issued by the Company or any of its subsidiaries, or (iv) any scrip dividend pursuant to the Articles of Association of the Company from time to time, shall not exceed 20 per cent. of the total number of issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period) and the said approval shall be limited accordingly; and

(b) for the purposes of this Resolution:

"Relevant Period" shall have the same meaning as assigned to it under Ordinary Resolution (A) of item no. 5 as set out in the notice convening this Meeting; and

"Rights Issue" means an offer of shares in the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to holders of shares of the Company whose names appear on the Register of Members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(C) "**THAT** the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Ordinary Resolution (B) of item no. 5 as set out in the notice convening this Meeting be and is hereby extended by the addition to the aggregate number of the shares which may be allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the Directors pursuant to such general mandate the aggregate number of shares in the Company bought back by the Company since the granting of the said general mandate pursuant to the exercise by the Directors of the powers of the Company to buy back such shares under the authority granted pursuant to Ordinary Resolution (A) of item no. 5 as set out in the notice convening this Meeting provided that such number of shares shall not exceed 10 per cent. of the total number of issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period)."

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 25 April 2018

Registered Office:
72-76/F., Two International Finance Centre
8 Finance Street, Central
Hong Kong

Notes:

(1) At the above Meeting, the Chairman will exercise his power under Article 80 of the Articles of Association to put each of the resolutions to be voted by way of a poll.

(2) A Member of the Company entitled to attend, speak and vote at the above Meeting is entitled to appoint one proxy or more proxies to attend and speak and on a poll, to vote instead of him at the Meeting, and separate proxies may be appointed by a Member to represent the respective number of shares held by the Member as specified in the relevant proxy form. A proxy need not be a Member. Form of proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of that power of attorney or authority) must be lodged with the Company's share registrar, Tricor Standard Limited (the "Company's Registrar") at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof or, in the case of poll taken more than 48 hours after it was demanded, not less than 24 hours before the time appointed for the taking of the poll.

(3) For the purpose of determining Shareholders who are entitled to attend and vote at the above Meeting, the Register of Members of the Company will be closed from Tuesday, 29 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled for attending the above Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar at the above address not later than 4:30 p.m. on Monday, 28 May 2018.

(4) For the purpose of determining Shareholders who qualify for the proposed final dividend, the Register of Members of the Company will be closed from Thursday, 7 June 2018 to Monday, 11 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar at the above address not later than 4:30 p.m. on Wednesday, 6 June 2018. The proposed final dividend will be paid to Shareholders whose names appear on the Register of Members of the Company on Monday, 11 June 2018.

(5) Concerning item no. 3 above, Dr Lam Ko Yin, Colin, Dr Lee Shau Kee, Mr Leung Hay Man and Mr Au Siu Kee, Alexander (collectively the "Retiring Directors") will retire from office and, being eligible, have offered themselves for re-election at the above Meeting.

(6) A circular containing details relating to re-election of the Retiring Directors and details of the Ordinary Resolution (A) (including the relevant explanatory statement) of item no. 5 above is sent to Members for perusal.

(7) *Concerning Ordinary Resolutions (B) and (C) of item no. 5 above, approvals are being sought from Members, as a general mandate in compliance with Sections 140 and 141 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Rules Governing the Listing of Securities on the Stock Exchange, that in the event it becomes desirable for the Company to issue any new shares of the Company, the Directors are given flexibility and discretion to allot and issue new shares up to 20 per cent. of the total number of the issued shares as at the date of passing of Ordinary Resolution (B) of item no. 5 above plus the aggregate number of shares bought back by the Company pursuant to the general mandate approved in Ordinary Resolution (A) of item no. 5 above. Save as disclosed (if any), the Directors, however, have no immediate plans to issue any new shares of the Company under the said mandates being sought.*

(8) *If item no. 2 above is approved, the final dividend will be paid to Shareholders of the Company on Friday, 15 June 2018.*

(9) *The Chinese translation of this notice is for reference only, and in case of any inconsistency, the English version shall prevail.*

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