恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED

Stock Code: 12

Annual Report 2017

CORPORATE PROFILE

Founded in 1976 by its Chairman, Dr The Honourable Lee Shau Kee, GBM, Henderson Land Development Company Limited is a leading property group with a focus on Hong Kong and mainland China. Its core businesses comprise property development and property investment. In addition, it has direct equity interests in a listed subsidiary, Henderson Investment Limited, and three listed associates, The Hong Kong and China Gas Company Limited (which in turn has equity stakes in a listed subsidiary, Towngas China Company Limited), Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited.

Henderson Land has been listed in Hong Kong since 1981 where it is one of the largest property groups. As at 31 December 2017, Henderson Land had a market capitalisation of HK$206 billion and the combined market capitalisation of the Company, its listed subsidiary and its associates was about HK$453 billion.

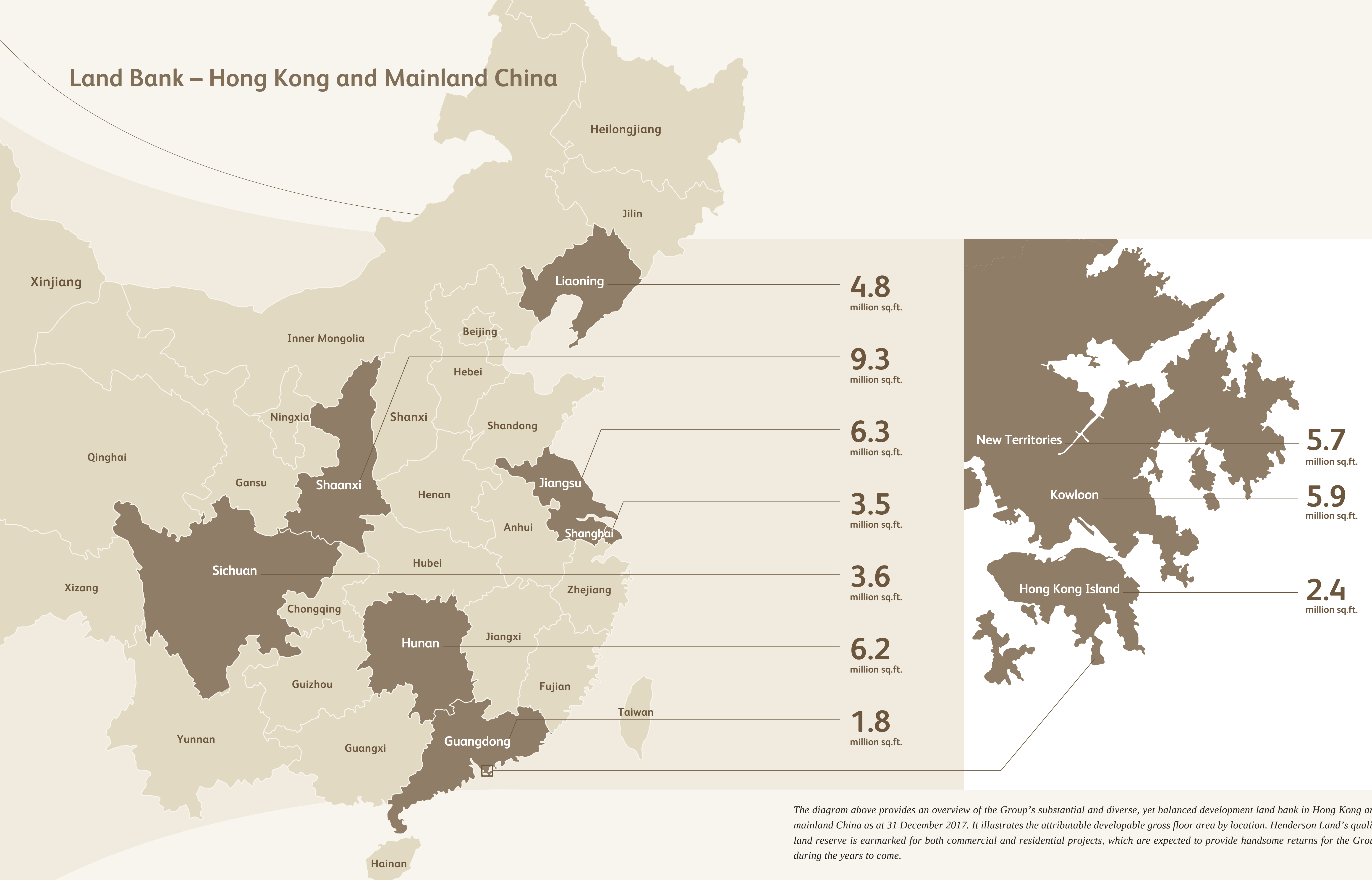
The Company is vertically integrated, with project management, construction, property management, and financial services supporting its core businesses. In all aspects of its operations, Henderson Land strives to add value for its shareholders, customers and the community through its commitment to excellence in product quality and service delivery as well as a continuous focus on sustainability and the environment.

Contents

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.

Land Bank – Hong Kong and Mainland China



The diagram above provides an overview of the Group's substantial and diverse, yet balanced development land bank in Hong Kong and mainland China as at 31 December 2017. It illustrates the attributable developable gross floor area by location. Henderson Land's quality land reserve is earmarked for both commercial and residential projects, which are expected to provide handsome returns for the Group during the years to come.

Awards & Accolades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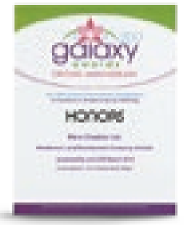

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Asia Property Awards 2017

PropertyGuru

Best Mixed Use Development (Asia) – Winner (15 Middle Road)

Best Green Development (Hong Kong) – Winner (15 Middle Road)

Best Universal Design Development (Hong Kong) – Winner (15 Middle Road)

Best Landscape Architectural Design – Highly Commended (15 Middle Road)

MIPIM Asia Awards 2017

Reed MIDEM

Best Futura Project – Bronze Winner (15 Middle Road)

Best Office & Business Development – Bronze Winner (18 King Wah Road)

APIGBA Hong Kong Award 2017

Asia Pacific Intelligent Green Building Alliance (Hong Kong Region)

Excellent Intelligent Green Building (Design Category) (218 Electric Road)

Asia Pacific Property Awards 2017-2018

International Property Awards

Best Office Development Hong Kong – 5-Star (218 Electric Road)

Commercial High-rise Development Hong Kong – Award Winner (45 Pottinger Street)

Mixed-use Development Hong Kong – Award Winner (8 Ka Shin Street and NOVUM EAST)

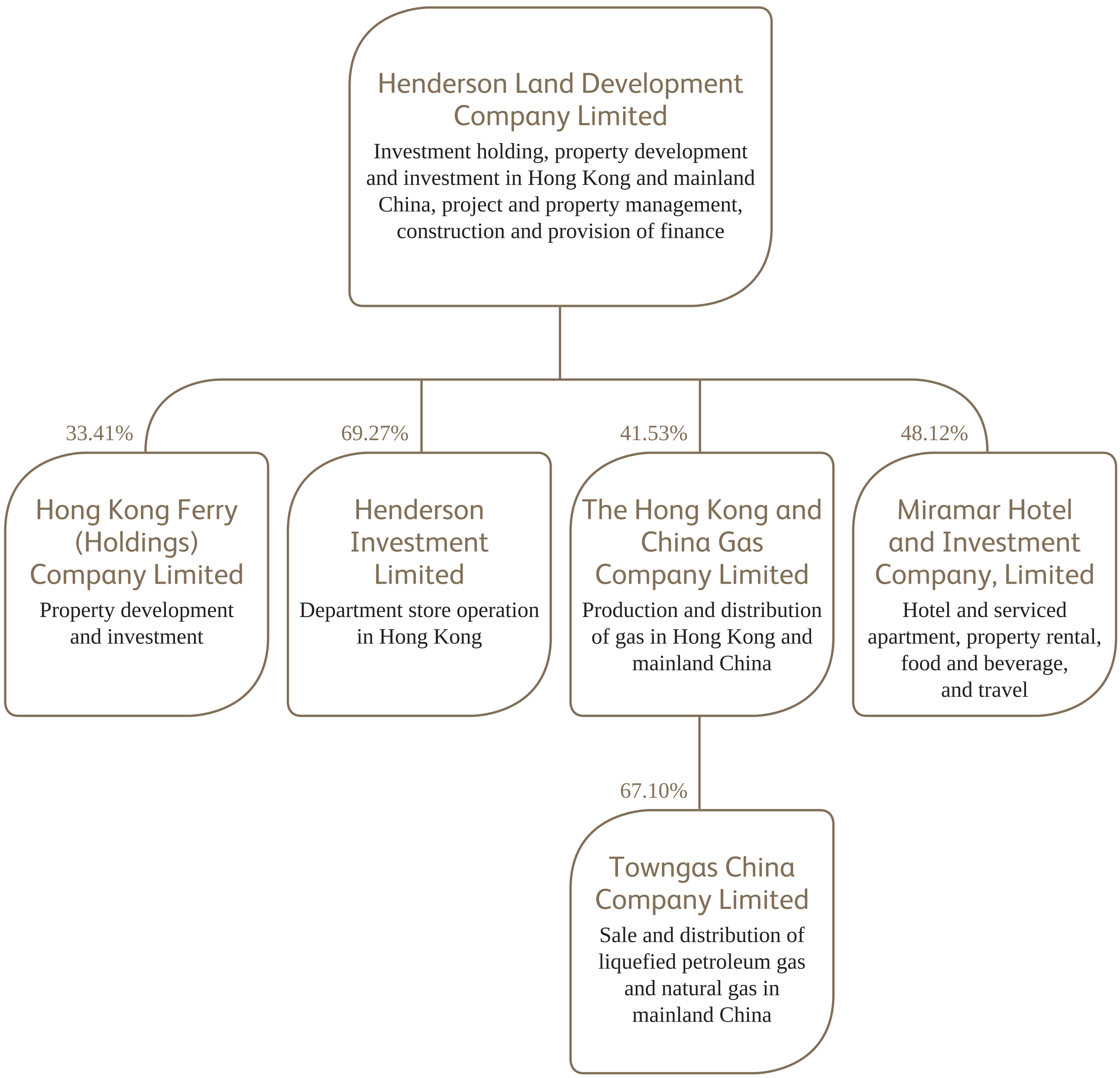
Residential High-rise Development Hong Kong – Award Winner (Seven Victory Avenue)

1. WELL Building Standard
   International Well Building Institute
   Gold Level Pre-certification (15 Middle Road)
2. BEAM Plus (New Buildings)
   Hong Kong Green Building Council
   Final Gold Rating (High Park)
   Final Silver Rating (8 Observatory Road)
   Provisional Platinum Rating (218 Electric Road)
   Provisional Silver Rating (Park One)
3. The Listed Enterprise Excellence Awards 2017
   CAPITAL WEEKLY
   Outstanding Corporate Results Performance Award
4. BCI Asia Top 10 Awards 2017
   BCI Asia
   Top 10 Developers Award
5. International ARC Awards 2017
   MerComm, Inc.
   Silver Award (Cover Photo/Design: Sustainability Report)
   Bronze Award (Interior Design: Sustainability Report)
   Honors Award (Illustrations: Sustainability Report)
6. Galaxy Awards 2017
   MerComm, Inc.
   Honors Award (Annual Reports – Print: Sustainability Report)
7. Mercury Excellence Awards 2016-2017
   MerComm, Inc.
   Silver Award (Annual Reports – Overall Presentation: Property Development)
   Bronze Award (Annual Reports – Overall Presentation: CSR – Corporate Social Responsibility Report)
8. Caring Company 2017/18
   Hong Kong Council of Social Service
   (Henderson Land, Hong Kong & China Gas, Hong Kong Ferry, Miramar, Miramar Travel, Hang Yick, Well Born, Goodwill and H-Privilege)
9. Hang Seng Corporate Sustainability Index Series
   Hang Seng Indexes Company Limited
   Constituent Company (Henderson Land, Hong Kong & China Gas and Towngas China)
10. HKCA Safety Award 2016
    Hong Kong Construction Association
    HKCA Proactive Safety Contractor Award (E Man, Heng Lai, Heng Shung and Heng Tat)
    HKCA Safety Merit Award (Grandic)
11. BOCHK Corporate Environmental Leadership Awards 2016
    Federation of Hong Kong Industries
    Gold Award (Manufacturing Sector) (Hong Kong & China Gas)
    Silver Award (Services Sector) (Mira Place One and Mira Place Tower A)
    5 Years+ EcoPioneer (The Hongkong & Yaumati Ferry Company Limited and The Hong Kong Shipyard Limited)
12. Corporate Social Responsibility (CSR) Recognition Scheme "Industry Cares" 2017
    Federation of Hong Kong Industries
    Outstanding Caring Award – Enterprise Group (Hong Kong Ferry)
    5+ Year Award (Hong Kong Ferry)
13. 2017 Business Excellence Awards
    AI Global Media
    Best Property Development & Investment Company & Leading Experts in Sea Transport Solutions – Hong Kong (Hong Kong Ferry)
14. 2016 International Customer Relationship Excellence Awards
    Asia Pacific Customer Service Consortium
    Best Clubhouse of the Year 2016 (Property Management) (Hang Yick, Well Born and H-Privilege)
    Best Use of Technology of the Year 2016 (Property Management – Facility Management) (Hang Yick, Well Born and H-Privilege)
    15 Consecutive Years of Participation (Well Born)
15. Excellence in Facility Management Award 2017
    The Hong Kong Institute of Facility Management
    Excellence in Facility Management Award (Retail) (Mira Place One)
16. Asia Pacific Shopping Center Awards
    International Council of Shopping Center
    Gold Award (Grand Opening, Renovation & Expansion) (Mira Place)

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.

Highlights of 2017 Final Results

	Note	For the year ended 31 December 2017 HK$ million	2016 HK$ million		Change
Property sales					
– Revenue	*1*	**19,848**	19,569		**+1%**
– Pre-tax profit contribution	*1, 2*	**5,818**	3,987		**+46%**
Property leasing					
– Gross rental income	*1*	**8,459**	8,240		**+3%**
– Pre-tax net rental income	*1*	**6,649**	6,481		**+3%**
Profit attributable to equity shareholders					
– Underlying profit	*3*	**19,557**	14,169		**+38%**
– Reported profit		**30,433**	21,916		**+39%**
		HK$	HK$		
Earnings per share					
– Based on underlying profit	*3, 4*	**4.89**	3.54	(restated)	**+38%**
– Based on reported profit	*4*	**7.61**	5.48	(restated)	**+39%**
Dividends per share		**1.71**	1.55		**+10%**
Allotment of bonus shares		**1 share for every 10 shares held**	1 share for every 10 shares held		**No change**
		At 31 December 2017 HK$	At 31 December 2016 HK$		**Change**
Net asset value per share	*4*	**73.26**	65.87	(restated)	**+11%**
Net debt to shareholders' equity		**19.0%**	12.7%		**+6.3 percentage points**
		Million square feet	Million square feet		
Properties in Hong Kong					
Land bank (attributable floor area)					
– Properties under development	*5*	**14.0**	13.7		
– Unsold units from major launched projects		**1.1**	0.7		
Sub-total:		**15.1**	14.4		
– Completed properties (including hotels) for rental		**9.4**	9.7		
Total:		**24.5**	24.1		
New Territories land (attributable land area)		**44.9**	44.8		
Properties in Mainland China					
Land bank (attributable floor area)					
– Properties held for/under development		**35.5**	91.0		
– Completed stock for sale		**1.0**	3.7		
– Completed properties for rental		**6.4**	6.4		
		42.9	101.1		

Note 1: This amount includes the Group's attributable share of contributions from subsidiaries, associates and joint ventures ("JVs").

Note 2: If the fair value change of the related properties is excluded from the cost of sales, the pre-tax underlying profit contribution from property sales for the year ended 31 December 2017 should be HK$5,908 million (2016: HK$4,115 million).

Note 3: Excluding the Group's attributable share of fair value change (net of tax) of the investment properties held by subsidiaries, associates and JVs.

Note 4: The earnings per share were calculated based on the weighted average number of shares as adjusted for the effect of the bonus issues under Hong Kong Accounting Standard 33, "Earnings Per Share". The net asset value per share at 31 December 2017 was calculated based on the number of issued shares outstanding at 31 December 2017, whilst the net asset value per share at 31 December 2016 was calculated based on the number of issued shares outstanding at 31 December 2016 and as adjusted for the bonus issue effected in 2017.

Note 5: Including the total attributable developable area of about 4.4 million square feet from the projects in Fanling North and Wo Shang Wai, which are subject to finalisation of land premium.


HIGH PARK GRAND
Mong Kok, Hong Kong

Chairman's Statement

Profit Attributable to Shareholders

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

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

Dividends

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

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

Dr The Honourable Lee Shau Kee, GBM
Chairman and Managing Director

Issue of Bonus Shares

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

Business Review

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

Hong Kong

Property Sale

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

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

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

Eden Manor, Kwu Tung, Hong Kong (artist's impression)

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

Property Development

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

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

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

In addition, the number of urban redevelopment projects with 80% to 100% of their ownerships acquired increased to 50, representing about 4.0 million square feet in total attributable gross floor area.

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

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

			No. of projects	Attributable saleable/ gross floor area (million sq. ft.) *(Note 1)*	Note
(A)	**Area available for sale in 2018:**				
1.	Unsold units from major development projects offered for sale	(Table 1)	24	1.1	
2.	Projects pending sale in 2018	(Table 2)	6	0.6	
			Sub-total:	**1.7**	Of which an attributable floor area of about 840,000 sq. ft. was sourced from urban redevelopment projects
(B)	**Projects in Urban Areas:**				
3.	Existing urban redevelopment projects	(Table 3)	4	1.1	Dates of sales launch are not yet fixed and one of them is pending finalisation of land premium with the Government
4.	Newly-acquired Urban Redevelopment Projects – with ownership fully consolidated	(Table 4)	25	2.1	Most of them are expected to be available for sale or leasing in 2019-2020
5.	Newly-acquired Urban Redevelopment Projects – with 80% or above ownership secured	(Table 5)	25	1.9	Most of them are expected to be available for sale in 2020-2022
6.	Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured	(Table 6)	31	0.8	Redevelopments of these projects are subject to successful consolidation of their ownerships
7.	15 Middle Road Tsim Sha Tsui (acquired through public tender)		1	0.3	To be held for rental purposes upon completion of development
8.	Murray Road, Central (acquired through public tender)		1	0.5	To be held for rental purposes upon completion of development
9.	Kai Tak Development Area (acquired after the financial year end)		2	1.1	
			Sub-total:	**7.8**	
	Total for the above categories (A) and (B) development projects:			**9.5**	
(C)	**Major development projects in the New Territories:**				
–	Fanling North			3.5	*(Note 2)*
–	Wo Shang Wai			0.9	*(Note 2)*
–	Fanling Sheung Shui Town Lot No. 262, Fanling North			0.6	
–	Fanling Sheung Shui Town Lot No. 263, Kwu Tung			0.3	
–	Others			0.3	
			Sub-total:	**5.6**	
			Total for categories (A) to (C):	**15.1**	

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

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

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

There are 24 major development projects available for sale:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	At 31 December 2017 No. of residential units remaining unsold	At 31 December 2017 Saleable area remaining unsold (sq. ft.)
1.	Eden Manor 88 Castle Peak Road Kwu Tung	154,280	555,399	Residential	100.00	395	401,095
2.	Double Cove – Phases 1-5 8 Wu Kai Sha Road Ma On Shan	1,042,397	2,950,640	Commercial/ Residential	59.00	116	211,263
3.	NOVUM EAST 856 King's Road Quarry Bay	17,720	177,817	Commercial/ Residential	100.00	409	116,757*
4.	NOVUM WEST 460 Queen's Road West Sai Ying Pun	28,027	272,439	Commercial/ Residential	100.00	350	113,045*
5.	Wellesley 23 Robinson Road Mid-Levels	31,380	156,900	Residential	50.00 *(Note 1)*	28	47,195*
6.	High Park Grand 68 Boundary Street Mong Kok	6,750	60,750	Commercial/ Residential	100.00	21	23,173*
7.	Seven Victory Avenue 7 Victory Avenue Ho Man Tin	9,865	83,245	Commercial/ Residential	100.00	56	19,087*
8.	Park One 1, 3 Nam Cheong Street and 180 Tung Chau Street Cheung Sha Wan	8,559	77,029	Commercial/ Residential	100.00	41	18,295*
9.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	4	11,742
10.	The Reach 11 Shap Pat Heung Road Yuen Long	371,358	1,299,744	Residential	79.03	9	10,923
11.	Green Lodge 23 Ma Fung Ling Road Tong Yan San Tsuen	78,781	78,781	Residential	100.00	2	6,617
12.	H • Bonaire 68 Main Street Ap Lei Chau	7,953	65,761	Commercial/ Residential	100.00	5	3,062*
13.	Green Code 1 Ma Sik Road Fanling	95,800	538,723	Commercial/ Residential	33.41	2	2,403

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	At 31 December 2017 No. of residential units remaining unsold	Saleable area remaining unsold (sq. ft.)
14.	PARKER33 33 Shing On Street Shau Kei Wan	7,513	80,090	Commercial/ Residential	100.00	4	2,269*
15.	Eltanin • Square Mile 11 Li Tak Street Mong Kok	19,600	176,353	Commercial/ Residential	100.00	3	1,626*
16.	High One Grand 188 Fuk Wing Street Cheung Sha Wan	7,350	62,858	Commercial/ Residential	100.00	2	1,615*
17.	High One 571 Fuk Wa Street Cheung Sha Wan	7,560	63,788	Commercial/ Residential	100.00	3	1,491*
18.	Jones Hive 8 Jones Street Causeway Bay	6,529	65,267	Residential	79.762	4	1,332*
19.	Harbour Park 208 Tung Chau Street Cheung Sha Wan	6,528	55,077	Commercial/ Residential	33.41	4	1,113*
20.	High Point 188 Tai Po Road Cheung Sha Wan	8,324	70,340	Commercial/ Residential	100.00	2	1,095*
21.	Global Gateway Tower 61A-61E and 63 Wing Hong Street Cheung Sha Wan	28,004	336,052	Industrial	100.00	Not applicable	88,981* *(Note 2)*
22.	The Globe 79 Wing Hong Street Cheung Sha Wan	14,343	172,113	Office	100.00	Not applicable	67,039 *(Note 2)*
23.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	Not applicable	60,359 *(Note 2)*
24.	Mega Cube 8 Wang Kwong Road Kowloon Bay	21,528	171,194	Office	100.00	Not applicable	52,835 *(Note 2)*
					Sub-total:	**1,460** *(Note 3)*	**1,264,412**
					Area attributable to the Group:		**1,149,295**

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

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

Note 3: Of which 177 residential units were completed with occupation permits.

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

(Table 2) Projects pending sale in 2018

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

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

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

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

(Table 3) Existing urban redevelopment projects

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

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

Note 1: Investment property.

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

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

There are 25 newly-acquired urban redevelopment projects with ownership fully consolidated. In the absence of unforeseen delays, most of these projects are expected to be available for sale or leasing in 2019-2020 and their expected attributable gross floor areas, based on the Buildings Department's approved plans or the Government's latest town planning, are as follows:

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	
	Hong Kong			
1.	1-19 Chung Ching Street and 21 Ki Ling Lane, Sheung Wan	7,858	90,048	
2.	1-4 Ladder Street Terrace, Sheung Wan	2,860	14,300	
3.	206-212 Johnston Road, Wanchai	4,339	65,083	*(Note 1)*
4.	17 Wood Road, Wanchai	2,015	17,128	*(a)*
5.	85-95 Shek Pai Wan Road, Aberdeen	4,950	47,025	*(b)*
6.	62C Robinson Road and 6 Seymour Terrace, Mid-Levels	3,855	33,760	
7.	4A-4P Seymour Road, Mid-Levels (65% stake held by the Group)	52,466	306,921	
8.	73-73E Caine Road, Mid-Levels	6,781	60,659	
9.	98-100 Robinson Road, Mid-Levels	5,594	23,576	*(c)*
10.	2 Tai Cheong Street, Sai Wan Ho	13,713	123,417	
11.	65-71 Main Street, Ap Lei Chau	4,800	40,800	
	Sub-total:	**109,231**	**822,717**	
	Kowloon			
12.	2A-2F Tak Shing Street, Jordan	10,614	89,229	
13.	25-29 Kok Cheung Street, Tai Kok Tsui	26,953	227,411	
14.	35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui	20,114	181,025	
15.	11-19 Wing Lung Street, Cheung Sha Wan	6,510	58,300	*(Note 2)*
16.	456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po	22,966	194,397	*(Note 2)*
17.	1-15 Berwick Street and 202-220 Nam Cheong Street, Shek Kip Mei	20,288	162,304	*(d)*
18.	3-8 Yiu Tung Street, Shek Kip Mei	7,313	58,504	*(d)*
19.	15-17A Whampoa Street, Hung Hom	4,000	36,000	*(e)*
20.	31-33 Whampoa Street, Hung Hom	3,000	27,000	*(f)*
21.	39-41 Whampoa Street and 12A-12B and 22-22A Bulkeley Street, Hung Hom	4,900	44,100	*(g)*
22.	14-16 and 26-28 Gillies Avenue South and 76-78 Baker Street, Hung Hom	6,375	57,375	*(h)*
23.	67-83 Fuk Lo Tsun Road, Kowloon City	10,954	93,109	*(Note 2)*
24.	4-6 Nam Kok Road, Kowloon City	2,817	23,945	*(i)*
25.	74-74C Waterloo Road and 15-25 Yau Moon Street, Ho Man Tin (49% stake held by the Group)	10,677	39,240	
	Sub-total:	**157,481**	**1,291,939**	
	Total:	**266,712**	**2,114,656**	

Note 1: To be held for rental purposes upon completion of development.

Note 2: Developable area may be subject to payment of land premium.

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

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

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

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	
	Hong Kong			
1.	13-15 Wood Road, Wanchai	3,993	33,941	*(a)*
2.	83 Shek Pai Wan Road, Aberdeen	1,128	10,716	*(b)*
3.	4-6 Tin Wan Street, Aberdeen	1,740	14,790	
4.	9-13 Sun Chun Street, Tai Hang	2,019	18,171	
5.	17-25 Sun Chun Street, Tai Hang	4,497	40,473	
6.	983-987A King's Road and 16-94 Pan Hoi Street, Quarry Bay (50% stake held by the Group)	43,882	176,760	
7.	88 Robinson Road, Mid-Levels	10,361	51,805	*(c)*
8.	94-96 Robinson Road, Mid-Levels	6,362	31,810	*(c)*
9.	105 Robinson Road, Mid-Levels	27,530	126,638	
	Sub-total:	**101,512**	**505,104**	
	Kowloon			
10.	1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui	9,642	86,778	
11.	177-183 Tai Kok Tsui Road, Tai Kok Tsui	4,500	36,000	
12.	189-199 Tai Kok Tsui Road, Tai Kok Tsui	6,745	60,705	
13.	16-30 Man On Street, Tai Kok Tsui	6,418	57,762	
14.	17-27 Berwick Street, Shek Kip Mei	7,725	61,800	*(d)*
15.	1-2 and 9-12 Yiu Tung Street, Shek Kip Mei	7,350	58,800	*(d)*
16.	1-11C and 19-21C Whampoa Street and 80-86 Baker Street, Hung Hom	15,725	141,525	*(e)*
17.	23-29 and 35-37 Whampoa Street and 79-81 Baker Street, Hung Hom	8,625	77,625	*(f)*
18.	14-20 Bulkeley Street and 46-50 Gillies Avenue South, Hung Hom	7,000	63,000	*(g)*
19.	2-12 and 18-24 Gillies Avenue South, Hung Hom	17,000	153,000	*(h)*
20.	2-16A Whampoa Street, Hung Hom	14,400	129,600	
21.	22-24 Whampoa Street and 88-90A Baker Street, Hung Hom	4,675	42,075	
22.	30-44 Gillies Avenue South and 75-77 Baker Street, Hung Hom	13,175	118,575	
23.	26-40A Whampoa Street and 83-85 Baker Street, Hung Hom	13,175	118,575	
24.	68A-70C To Kwa Wan Road, 14-16 Ha Heung Road, 1-7 Lai Wa Street and 2-8 Mei Wa Street, To Kwa Wan	22,023	149,141	
25.	8-22 Nam Kok Road, Kowloon City	7,360	62,560	*(i)*
	Sub-total:	**165,538**	**1,417,521**	
	Total:	**267,050**	**1,922,625**	

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

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

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

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

Land Bank

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

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

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

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

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

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

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

The Group currently has a land bank in Hong Kong comprising a total attributable gross floor area of approximately 24.5 million square feet, made up as follows:

		Attributable gross floor area (million sq. ft.)
Properties under development *(Note)*		14.0
Unsold units from major launched projects		1.1
	Sub-total:	**15.1**
Completed properties (including hotels) for rental		9.4
	Total:	**24.5**

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

Land in Urban Areas

In addition to those already in the sales pipeline as mentioned, there are currently 50 urban redevelopment projects of old tenement buildings with entire or over 80% ownership acquired, representing a total attributable gross floor area of about 4.0 million square feet, which are expected to be available for sale or leasing in 2019 or beyond. The total land cost of such projects is estimated to be about HK$33,400 million (in spite of the inclusion of pricey street shops and the project at the prestigious Seymour Road in Mid-Levels), translating into a land cost of approximately HK$8,300 per square foot of gross floor area.

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

New Territories land

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

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

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

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

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

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

ifc mall, Central, Hong Kong

Investment Properties

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

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

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

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

Retail portfolio

The Group's major shopping malls (except those under renovation or undergoing a realignment of tenant mix) recorded nearly full occupancy at the end of December 2017 with steady rental growth. Such satisfactory results were built on favourable attributes of the Group's shopping malls, including convenient locations, attentive customer services and appealing tenant mix. In addition to the regular facility upgrades of its shopping malls to maintain their competitiveness, the Group also closely watched the market trends and launched many innovative marketing activities to attract more shoppers. For instance, a local television operator was allowed to film its first-ever drama with real location shooting and in 4K picture quality at some of the Group's premises (namely, "MCP" in Tseung Kwan O, "KOLOUR • Tsuen Wan" and "KOLOUR • Yuen Long") with the final episode shown live at "Sunshine City Plaza" in Ma On Shan. This drama was well received and

MCP Central, Tseung Kwan O, Hong Kong

enhanced the awareness for the Group's shopping malls. At "KOLOUR • Tsuen Wan", a micro film was made to showcase the renovated mall. Virtual reality (VR) and augmented reality (AR) interactive entertainments were used for festive promotions. The mall thus has been successfully shaped into a popular rendezvous for the younger generation in the district. At "MCP Central" and "MCP Discovery" in Tseung Kwan O, renowned Japanese illustrator Toriyama Akira presented his first-ever three-dimensional crossover decorations of "Arale x Goku". All these creative promotional activities were appreciated by the industry. The Group won multiple honours in "The Shopping Mall Awards" organised by Hong Kong Economic Times, whilst "MCP" in Tseung Kwan O was also honoured as one of the "Top 10 Shopping Malls in Hong Kong".

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

Office portfolio

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

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

Caprice, The Four Seasons Hotel Hong Kong

Hotel Operations

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

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

Construction

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

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

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

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

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

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

Property Management

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

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

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

Mainland China

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Land bank under development or held for future development

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

* *Excluding basement areas and car parks*

Usage of development land bank

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

Property Sales

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

Investment Properties

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

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

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

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

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

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

Xu Hui Riverside Commercial Project, Xuhui District, Shanghai (artist's impression)

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

Henderson Investment Limited ("HIL")

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

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

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

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

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

Citistore

– 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.

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

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

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

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

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

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

Associated Companies

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

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

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

Town Gas Business in Hong Kong

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

Utility Businesses in Mainland China

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

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

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

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

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

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

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

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

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

ECO HVO plant in Zhangjiagang city, Jiangsu province

Emerging Environmentally-Friendly Energy Businesses

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

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

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

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

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

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

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

Telecommunications Businesses

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

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

Financing Programmes

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

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

Hong Kong Ferry (Holdings) Company Limited ("Hong Kong Ferry")

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

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

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

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

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

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

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

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

Harbour Park, Cheung Sha Wan, Hong Kong

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

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

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

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

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

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

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

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

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

Mira Place, Tsim Sha Tsui, Hong Kong

Corporate Finance

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

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

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

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

Prospects

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

The Group continues to replenish its development land bank in Hong Kong through various means and encouraging progress has been achieved: (1) In May 2017, the Group won the tender for a prestigious commercial site at Murray Road, Central with a gross floor area of about 465,000 square feet at HK$23,280 million; (2) The number of urban redevelopment projects with 80% to 100% of their ownerships acquired increased to 50, representing about 4.0 million square feet in total attributable gross floor area; (3) In December 2017, land-use conversion premium for two sites separately in Fanling North and Kwu Tung New Development Areas were agreed with the Government at about HK$2,532 million and HK$1,235 million respectively. They will provide an aggregate attributable gross floor areas of about 900,000 square feet. Whereas, the Group's land reserves in the New Territories increased to 44.9 million square feet in terms of site area at the end of December 2017, the largest holding among all property developers in Hong Kong; and (4) In February 2018, two residential sites in Kai Tak Development Area were secured at a total consideration of about HK$15,959 million, adding over 1.0 million square feet in aggregate gross floor area to its land bank.

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

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

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

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

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

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

Appreciation

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

Lee Shau Kee
Chairman

Hong Kong, 21 March 2018

MEGA CUBE

Kowloon Bay, Hong Kong

Progress of Major Development Projects

Status of property developments with anticipated completion during the period to the end of 2020

Harbour Park, Cheung Sha Wan, Hong Kong

Harbour Park

208 Tung Chau Street, Cheung Sha Wan (33.41% owned)

Site area
6,528 square feet

Gross floor area
55,077 square feet

Residential units
161

Completion
26 January 2018

"Harbour Park", a 26-storey residential development, commands breathtaking views of Victoria Harbour and surrounding green parks. Metro Harbour Plaza, as well as another sizeable shopping mall under development, are both within walking distance, offering unrivalled living convenience to its residents. Only minutes from Nam Cheong MTR Station, the transport nexus of West Rail and Tung Chung lines, "Harbour Park" enjoys a comprehensive transportation network and close proximity to the future Express Rail Link West Kowloon Station.

45 Pottinger Street, Central

(19.10% owned)

Situated at the intersection of the historical Pottinger Street and the bustling thoroughfare of Lyndhurst Terrace, the project enjoys convenient access to public transport, including Central MTR Station and Airport Express Terminal. Construction of the superstructure work is close to complete and it will become a tasteful shopping and fine dining community, bringing vibrancy to the heart of SOHO. This commercial development will be held for rental purpose upon completion.

Site area
9,067 square feet

Gross floor area
135,995 square feet

Expected completion
Second quarter of 2018

45 Pottinger Street, Central, Hong Kong (artist's impression)

Lot No. 1752 in DD No. 122, Tong Yan San Tsuen, Yuen Long, Hong Kong (artist's impression)

Lot No. 1752 in DD No. 122, Tong Yan San Tsuen, Yuen Long

(100% owned)

Site area
27,864 square feet

Gross floor area
27,864 square feet

Residential units
16

Expected completion
Third quarter of 2018

Surrounded by lush greenery in a tranquil environment, the site will be developed into 16 three-storey villas. Superstructure works are in progress.

Wellesley

23 Robinson Road, Mid-Levels (25.07% owned*)

Located in the upscale Mid-Levels district, "Wellesley" is a 30-storey premier residential development and the construction of the superstructure is in progress.

(the Group's interest is 50% after the allocation of the relevant residential units to each of the involved developers separately on a proportional basis under the "Deed of Mutual Grant and Covenant and Management Agreement".)*

Site area
31,380 square feet

Gross floor area
156,900 square feet

Residential units
90

Expected completion
Third quarter of 2018

Wellesley, Mid-Levels, Hong Kong (artist's impression)

Seven Victory Avenue

7 Victory Avenue, Ho Man Tin (100% owned)

Seven Victory Avenue, Ho Man Tin, Hong Kong (artist's impression)

Site area
9,865 square feet

Gross floor area
83,245 square feet

Residential units
250

Expected completion
Third quarter of 2018

"Seven Victory Avenue" is situated in a well-established district, which houses many prestigious and highly sought-after schools. Adjacent to the upmarket residential neighbourhood of Kadoorie Hill and within easy reach of Mong Kok East MTR station, this 27-storey boutique apartment tower offers residents both tranquility and modern lifestyle convenience. Construction has proceeded to the superstructure stage.

Park One

1, 3 Nam Cheong Street and 180 Tung Chau Street, Cheung Sha Wan (100% owned)

"Park One" is close to Tung Chau Street Park and Nam Cheong Park, allowing residents to embrace a refreshing and aesthetic environment. Shopping arcades and MTR stations are within walking distance, offering unparalleled living convenience to its residents. Superstructure works are in progress and this 38-storey residential-cum-commercial tower has been specially designed to maximise the magnificent sea views.

Site area
8,559 square feet

Gross floor area
77,029 square feet

Residential units
129

Expected completion
Fourth quarter of 2018

Park One, Cheung Sha Wan, Hong Kong (artist's impression)

PARK REACH, Yuen Long, Hong Kong (artist's impression)

PARK REACH

33 Shap Pat Heung Road (formerly known as project at Yuen Long Town Lot No. 527)
(79.03% owned)

Site area
6,131 square feet

Gross floor area
21,453 square feet

Residential units
63

Expected completion
First quarter of 2019

Situated adjacent to the Group's project "The Reach", this site will be developed into a 8-storey residential-cum-commercial development. Superstructure works are under way. This residential development was well received by buyers at its launch in December 2017 with all its 63 boutique apartment units sold out on the first day of its release.

NOVUM EAST, Quarry Bay, Hong Kong (artist's impression)

NOVUM EAST

856 King's Road, Quarry Bay (100% owned)

Site area
17,720 square feet

Gross floor area
177,817 square feet

Residential units
464

Expected completion
First quarter of 2019

Located close to the Quarry Bay MTR station, the interchange of Island Line and Tseung Kwan O Line, this 32-storey residential-cum-commercial development will allow upper floor residences to enjoy panoramic views of the Victoria Harbour and the lush greenery of Braemar Hill. Superstructure works are in progress. It was launched for presales in November 2017 with satisfactory market response.

8-30A Ka Shin Street, Tai Kok Tsui

(100% owned)

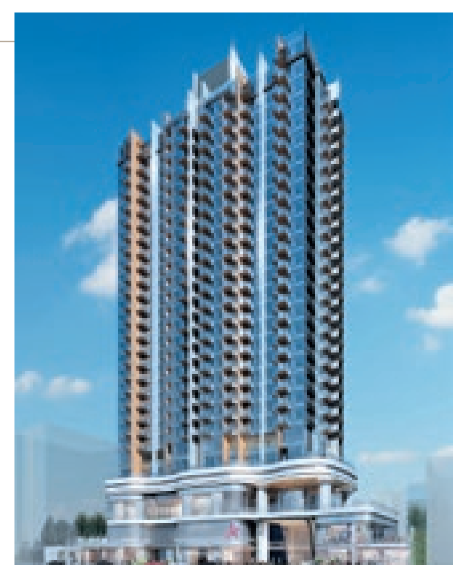
Located next to the Group's "Eltanin • Square Mile" with Olympic MTR station in its proximity, this commercial-cum-residential development is surrounded by a vibrant neighbourhood with various amenities and shopping arcades. Superstructure works are in progress.

Site area
19,610 square feet

Gross floor area
176,315 square feet

Residential units
514

Expected completion
Second quarter of 2019



8-30A Ka Shin Street, Tai Kok Tsui, Hong Kong (artist's impression)

Eden Manor

88 Castle Peak Road, Kwu Tung (100% owned)

Eden Manor, Kwu Tung, Hong Kong (artist's impression)

Site area
154,280 square feet

Gross floor area
555,399 square feet

Residential units
590

Expected completion
Second quarter of 2019

Located in a unique enclave with the Hong Kong Golf Club, Fanling Lodge and The Hong Kong Jockey Club – Beas River Country Club in its proximity, "Eden Manor" comprises 25 villas and 8 residential towers. Thanks to the shimmering glass curtain walls that maximise light and visibility, residents can enjoy sprawling open views of lush greenery. Construction has proceeded to the superstructure stage and it was launched for pre-sales in March 2017.

South Walk • Aura

12 Tin Wan Street, Aberdeen (100% owned)

Superstructure works are in progress and it will be developed into a 26-storey boutique apartment tower with some ground-level retail shops. Some of the residential units on the upper level of the building will enjoy sweeping views as far as Lamma Island.

Site area
4,060 square feet

Gross floor area
37,550 square feet

Residential units
142

Expected completion
Second quarter of 2019

South Walk • Aura, Aberdeen, Hong Kong (artist's impression)

15 Middle Road, Tsim Sha Tsui, Hong Kong (artist's impression)

15 Middle Road, Tsim Sha Tsui

(100% owned)

Site area
28,309 square feet

Gross floor area
339,651 square feet

Expected completion
Second quarter of 2019

The project at "15 Middle Road" atop East Tsim Sha Tsui MTR station, which is just one stop from the forthcoming Express Rail Link West Kowloon Station, will be developed into a Ginza-style commercial property, comprising medical, dining, retail and carparking facilities. Its purpose-built medical floors, which are designed by a team of professional medical design consultants, will be equipped with various advanced facilities (such as an air purification system and back-up power supply) so as to meet various medical requirements. The podium carpark will have access to retail floors, allowing greater convenience for shoppers. In addition, it features quality restaurants on its uppermost floors, bringing customers not only an unparalleled dining experience, but also a fascinating view of Victoria Harbour. This 340,000-square-foot development is scheduled for completion in 2019 and pre-marketing is under way.

NOVUM WEST

460 Queen's Road West, Sai Ying Pun (100% owned)

NOVUM WEST, Sai Ying Pun, Hong Kong (artist's impression)

Site area
28,027 square feet

Gross floor area
272,439 square feet

Residential units
645

Expected completion
Third quarter of 2019

Located right next to "HKU" MTR station with Western Harbour Tunnel in the proximity, NOVUM WEST enjoys convenient access to every part of the city. With many prestigious schools just steps way, this 35-storey development is complemented by duo residential clubhouses and a chic shopping mall to offer a vibrant living environment. Superstructure works are in progress and it was launched for pre-sales in May 2017 with positive market response.

218 Electric Road, North Point

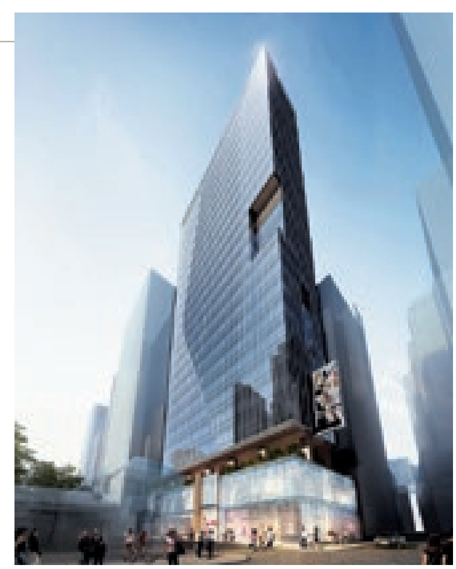
(100% owned)

The redevelopment of the former "Newton Hotel Hong Kong" will consist of a 22-storey Grade-A office tower and two floors of shops, supported by a podium garden and a two-level underground car park. Its foundation works are under way. With its prime location close to an MTR station, together with the innovative design and high specifications, this project is poised to feature as another landmark in the North Point commercial hub after the nearby "AIA Tower".

Site area
9,600 square feet

Gross floor area
143,997 square feet

Expected completion
Fourth quarter of 2019



218 Electric Road, North Point, Hong Kong (artist's impression)

Yuen Long Town Lot No. 524

(79.03% owned)

Yuen Long Town Lot No. 524, Yuen Long, Hong Kong (artist's impression)

Site area
48,933 square feet

Gross floor area
171,266 square feet

Residential units
504

Expected completion
First quarter of 2020

Situated adjacent to the Group's "PARK REACH" project, which was highly sought-after by buyers and sold out soon after its sales launch, this site will be developed into a residential development, providing 504 housing units. Surrounded by verdant greenery in a tranquil environment, superstructure works for this project are now in progress.

206-212 Johnston Road, Wanchai

(100% owned)

The advantageous location of being close to Wanchai MTR station, together with its innovative design and state-of-the-art facilities make this office development a new benchmark in this business hub. Demolition of the existing structure has begun.

Site area
4,339 square feet

Gross floor area
65,083 square feet

Expected completion
Second quarter of 2020

206-212 Johnston Road, Wanchai, Hong Kong (artist's impression)

342-354 Un Chau Street, Cheung Sha Wan

(100% owned)

Site area
8,013 square feet

Gross floor area
67,847 square feet

Residential units
176

Expected completion
Fourth quarter of 2020

342-354 Un Chau Street, Cheung Sha Wan, Hong Kong (artist's impression)

Adjacent to Cheung Sha Wan MTR station, this project enjoys an array of amenities (such as museum, sports ground and shopping arcade) in its neighbourhood. Foundation works have been progressing well and it will be developed into a quality residential-cum-commercial property.

Location of Various Categories of Development Projects

Major Development Projects with Unsold Units Offered for Sale

1 Eden Manor
2 Double Cove – Phases 1-5
3 NOVUM EAST
4 NOVUM WEST
5 Wellesley
6 High Park Grand
7 Seven Victory Avenue
8 Park One
9 Hill Paramount
10 The Reach
11 Green Lodge
12 H • Bonaire
13 Green Code
14 PARKER33
15 Eltanin • Square Mile
16 High One Grand
17 High One
18 Jones Hive
19 Harbour Park
20 High Point
21 Global Gateway Tower
22 The Globe
23 E-Trade Plaza
24 Mega Cube

Projects Pending Sale in 2018

25 South Walk • Aura
26 8-30A Ka Shin Street, Tai Kok Tsui
27 Lot No. 1752 in DD No. 122 Tong Yan San Tsuen, Yuen Long
28 Yuen Long Town Lot No. 524
29 57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan
30 342-354 Un Chau Street, Cheung Sha Wan

Existing Urban Redevelopment Projects

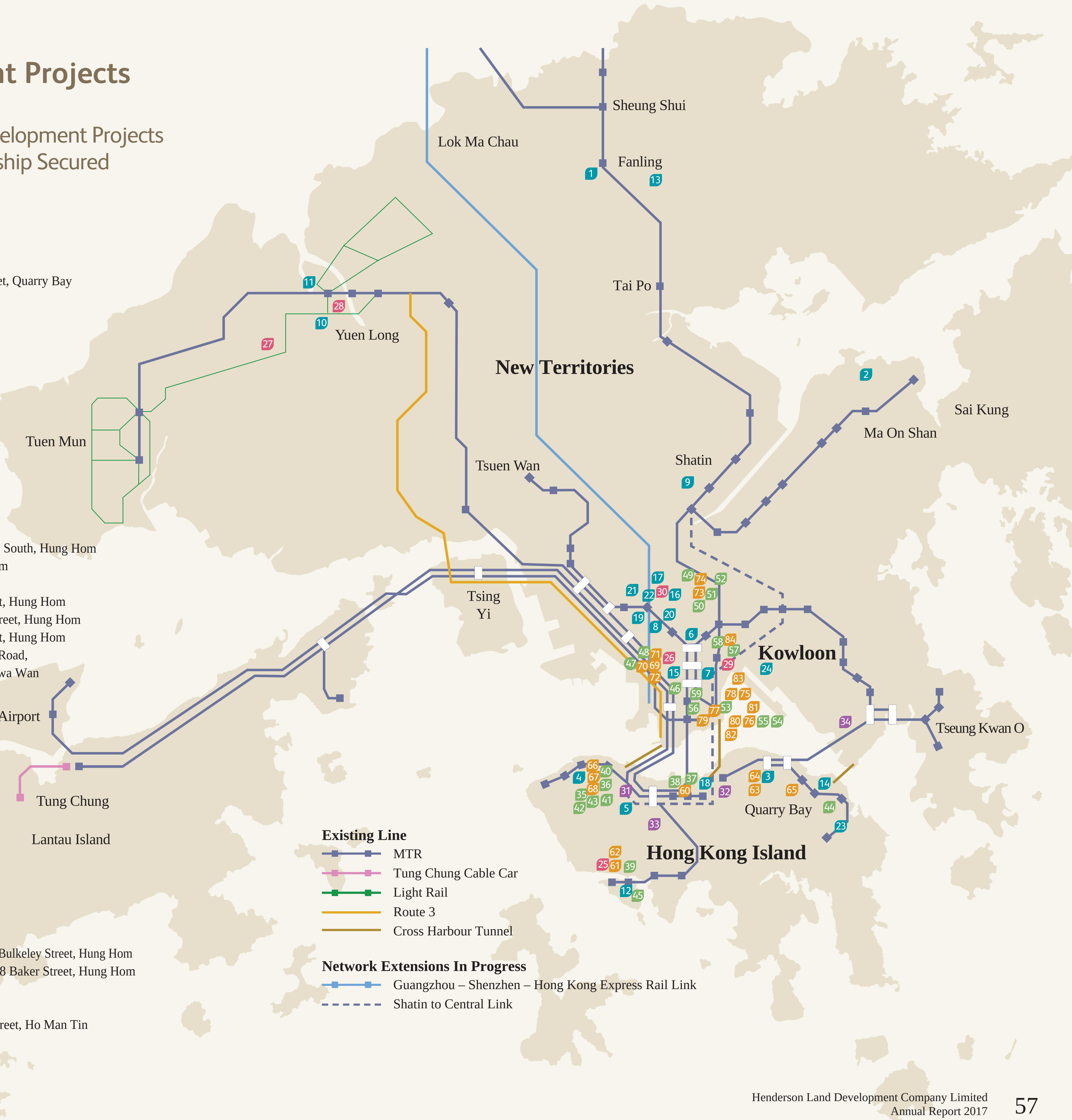
31 45 Pottinger Street, Central
32 218 Electric Road, North Point
33 29A Lugard Road, The Peak
34 Yau Tong Bay

Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated

35 1-19 Chung Ching Street and 21 Ki Ling Lane, Sheung Wan
36 1-4 Ladder Street Terrace, Sheung Wan
37 206-212 Johnston Road, Wanchai
38 17 Wood Road, Wanchai
39 85-95 Shek Pai Wan Road, Aberdeen
40 62C Robinson Road and 6 Seymour Terrace, Mid-Levels
41 4A-4P Seymour Road, Mid-Levels
42 73-73E Caine Road, Mid-Levels
43 98-100 Robinson Road, Mid-Levels
44 2 Tai Cheong Street, Sai Wan Ho
45 65-71 Main Street, Ap Lei Chau
46 2A-2F Tak Shing Street, Jordan
47 25-29 Kok Cheung Street, Tai Kok Tsui
48 35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui
49 11-19 Wing Lung Street, Cheung Sha Wan
50 456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po
51 1-15 Berwick Street and 202-220 Nam Cheong Street, Shek Kip Mei
52 3-8 Yiu Tung Street, Shek Kip Mei
53 15-17A Whampoa Street, Hung Hom
54 31-33 Whampoa Street, Hung Hom
55 39-41 Whampoa Street and 12A-12B and 22-22A Bulkeley Street, Hung Hom
56 14-16 and 26-28 Gillies Avenue South and 76-78 Baker Street, Hung Hom
57 67-83 Fuk Lo Tsun Road, Kowloon City
58 4-6 Nam Kok Road, Kowloon City
59 74-74C Waterloo Road and 15-25 Yau Moon Street, Ho Man Tin

Newly-acquired Urban Redevelopment Projects – with 80 % or above Ownership Secured

60 13-15 Wood Road, Wanchai
61 83 Shek Pai Wan Road, Aberdeen
62 4-6 Tin Wan Street, Aberdeen
63 9-13 Sun Chun Street, Tai Hang
64 17-25 Sun Chun Street, Tai Hang
65 983-987A King's Road and 16-94 Pan Hoi Street, Quarry Bay
66 88 Robinson Road, Mid-Levels
67 94-96 Robinson Road, Mid-Levels
68 105 Robinson Road, Mid-Levels
69 1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui
70 177-183 Tai Kok Tsui Road, Tai Kok Tsui
71 189-199 Tai Kok Tsui Road, Tai Kok Tsui
72 16-30 Man On Street, Tai Kok Tsui
73 17-27 Berwick Street, Shek Kip Mei
74 1-2 and 9-12 Yiu Tung Street, Shek Kip Mei
75 1-11C and 19-21C Whampoa Street and 80-86 Baker Street, Hung Hom
76 23-29 and 35-37 Whampoa Street and 79-81 Baker Street, Hung Hom
77 14-20 Bulkeley Street and 46-50 Gillies Avenue South, Hung Hom
78 2-12 and 18-24 Gillies Avenue South, Hung Hom
79 2-16A Whampoa Street, Hung Hom
80 22-24 Whampoa Street and 88-90A Baker Street, Hung Hom
81 30-44 Gillies Avenue South and 75-77 Baker Street, Hung Hom
82 26-40A Whampoa Street and 83-85 Baker Street, Hung Hom
83 68A-70C To Kwa Wan Road, 14-16 Ha Heung Road, 1-7 Lai Wa Street and 2-8 Mei Wa Street, To Kwa Wan
84 8-22 Nam Kok Road, Kowloon City



Major Completed Investment Properties

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet): Residential/ Hotel Serviced Suite	Commercial	Office	Industrial/ Office	Total	Attributable no. of carpark
Hong Kong Island									
Eva Court	36 MacDonnell Road, Mid-Levels	2895	100.00	108,214	–	–	–	108,214	49
FWD Financial Centre	308-320 Des Voeux Road Central	2865	100.00	–	31,987	182,373	–	214,360	–
AIA Tower	183 Electric Road, North Point	2047	100.00	–	22,338	490,072	–	512,410	207
One International Finance Centre	1 Harbour View Street, Central	2047	40.77	–	53,465	319,833	–	373,298	71
Two International Finance Centre (excluding levels of 33 to 52, 55, 56 and 77 to 88)	8 Finance Street, Central	2047	40.77	–	207,474	451,857	–	659,331	189
Four Seasons Place	8 Finance Street, Central	2047	40.77	216,103	–	–	–	216,103	7
Mira Moon	388-390 Jaffe Road, Wanchai	2026	100.00	66,128	–	–	–	66,128	–
Kowloon									
Hollywood Plaza	610 Nathan Road, Mong Kok	2047	33.33	–	33,511	64,422	–	97,933	–
Winning Centre	29 Tai Yau Street, San Po Kong	2047	100.00	–	–	–	150,212	150,212	–
Well Tech Centre	9 Pat Tat Street, San Po Kong	2047	100.00	–	–	161,998	–	161,998	40
Manulife Financial Centre	223-231 Wai Yip Street, Kwun Tong	2050	88.50	–	47,860	919,004	–	966,864	394
78 Hung To Road	78 Hung To Road, Kwun Tong	2047	100.00	–	–	–	119,995	119,995	16
52 Hung To Road	52 Hung To Road, Kwun Tong	2047	100.00	–	–	–	125,114	125,114	–
AIA Financial Centre	712 Prince Edward Road East, San Po Kong	2047	100.00	–	–	216,593	–	216,593	70
Cité 33	33 Lai Chi Kok Road, Mong Kok	2026	100.00	–	13,620	–	–	13,620	–
The Sparkle	500 Tung Chau Street, Cheung Sha Wan	2055	100.00	–	53,443	–	–	53,443	–
8 Observatory Road	8 Observatory Road, Tsim Sha Tsui	2064	50.00	–	45,312	37,273	–	82,585	32
The Zutten	50 Ma Tau Kok Road	2050	100.00	–	17,078	–	–	17,078	–
Square Mile	11 Li Tak Street, Mong Kok	2870	100.00	–	41,939	–	–	41,939	–
Nathan Hill	38 Hillwood Road, Tsim Sha Tsui	2043	100.00	–	55,031	–	–	55,031	–
New Territories									
Fanling Centre	33 San Wan Road, Fanling	2047	100.00	–	151,513	–	–	151,513	302
Flora Plaza	88 Pak Wo Road, Fanling	2047	60.00	–	94,657	–	–	94,657	130
The Trend Plaza	Tuen Mun Heung Sze Wui Road, Tuen Mun	2047	100.00	–	195,280	–	–	195,280	78
Marina Cove	Lot No. 526 in D.D. No. 210, Sai Kung	2047	40.00	–	9,566 *(Note)*	–	–	9,566	151

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet) Residential/ Hotel Serviced Suite	Commercial	Office	Industrial/ Office	Total	Attributable no. of carpark
KOLOUR • Tsuen Wan I	68 Chung On Street, Tsuen Wan	2047	74.96	–	138,555	156,981	–	295,536	100
KOLOUR • Tsuen Wan II	145-165 Castle Peak Road, Tsuen Wan	2047	100.00	–	155,022	–	–	155,022	85
Skyline Plaza	88 Tai Ho Road, Tsuen Wan	2047	100.00	–	154,259	–	–	154,259	104
Shatin Centre	2-16 Wang Pok Street, Sha Tin	2047	100.00	–	100,029	–	–	100,029	408
Shatin Plaza	21-27 Shatin Centre Street, Sha Tin	2047	77.55	–	114,730	–	–	114,730	67
Blocks A & B, Sunshine City	18 On Shing Street, Ma On Shan	2047	100.00	–	9,305	–	–	9,305	–
Blocks C & D, Sunshine City	22 On Shing Street, Ma On Shan	2047	100.00	–	10,236	–	–	10,236	–
Blocks N, P, Q & R, Sunshine City	8 On Shing Street, Ma On Shan	2047	100.00	–	58,881	–	–	58,881	186
Sunshine City Plaza	18 On Luk Street, Ma On Shan	2047	100.00	–	532,637	–	–	532,637	829
Sunshine Bazaar	628 Sai Sha Road, Ma On Shan	2047	100.00	–	79,642	–	–	79,642	224
KOLOUR • Yuen Long	1 Kau Yuk Road, Yuen Long	2047	100.00	–	140,341	–	–	140,341	51
La Cité Noble Shopping Arcade	1 Ngan O Road, Tseung Kwan O	2047	100.00	–	35,186	–	–	35,186	–
Dawning Views Plaza	23 Yat Ming Road, Fanling	2047	100.00	–	87,766	–	–	87,766	–
MCP Central (formerly known as Metro City Phase 2 Shopping Arcade)	8 Yan King Road, Tseung Kwan O	2047	100.00	–	956,849	–	–	956,849	669
MCP Discovery (formerly known as The Metropolis, Metro City Phase 3 Shopping Arcade)	8 Mau Yip Road, Tseung Kwan O	2047	100.00	–	266,954	–	–	266,954	233
Citygate	20 Tat Tung Road, Tung Chung, Lantau Island	2047	20.00	–	92,536	32,280	–	124,816	233
The Sherwood	8 Fuk Hang Tsuen Road, Tuen Mun	2052	100.00	–	30,139	–	–	30,139	250
Double Cove Place	8 Wu Kai Sha Road, Ma On Shan	2060	59.00	–	58,131	–	–	58,131	229
			Total:	**390,445**	**4,095,272**	**3,032,686**	**395,321**	**7,913,724**	**5,404**

Note: In addition there are 121 pontoons and 30 hardstand spaces attributable to the Group.

Major Completed Investment Properties

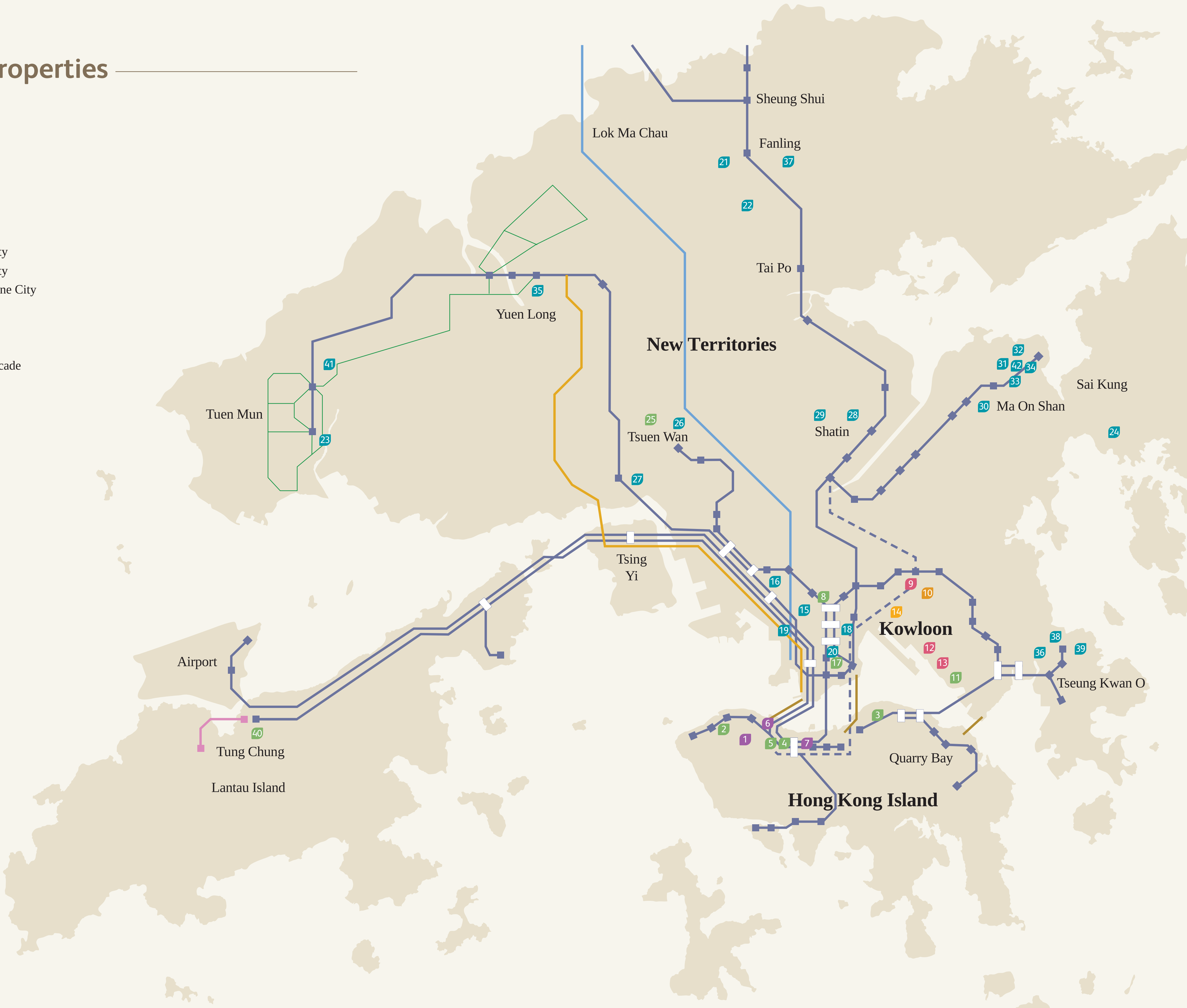
Major Completed Investment Properties

1 Eva Court
2 FWD Financial Centre
3 AIA Tower
4 One International Finance Centre
5 Two International Finance Centre
6 Four Seasons Place
7 Mira Moon
8 Hollywood Plaza
9 Winning Centre
10 Well Tech Centre
11 Manulife Financial Centre
12 78 Hung To Road
13 52 Hung To Road
14 AIA Financial Centre
15 Cité 33
16 The Sparkle
17 8 Observatory Road
18 The Zutten
19 Square Mile
20 Nathan Hill
21 Fanling Centre
22 Flora Plaza
23 The Trend Plaza
24 Marina Cove
25 KOLOUR • Tsuen Wan I
26 KOLOUR • Tsuen Wan II
27 Skyline Plaza
28 Shatin Centre
29 Shatin Plaza
30 Blocks A & B, Sunshine City
31 Blocks C & D, Sunshine City
32 Blocks N, P, Q & R, Sunshine City
33 Sunshine City Plaza
34 Sunshine Bazaar
35 KOLOUR • Yuen Long
36 La Cité Noble Shopping Arcade
37 Dawning Views Plaza
38 MCP Central
39 MCP Discovery
40 Citygate
41 The Sherwood
42 Double Cove Place

Residential / Hotel Serviced Suites
Commercial
Office
Industrial
Commercial & Office

Existing Line
MTR
Tung Chung Cable Car
Light Rail
Route 3
Cross Harbour Tunnel

Network Extensions In Progress
Guangzhou – Shenzhen – Hong Kong Express Rail Link
Shatin to Central Link



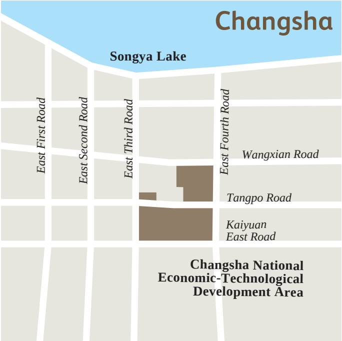
ISLAND PALACE
Yixing

Progress of Major Development Projects

The Arch of Triumph, Changsha

Changsha

The Arch of Triumph (100% owned*)



The Arch of Triumph is a community development with around 6,700,000 square feet of premium residential units to be built in three phases. Its 33-storey Arc de Triomphe-style building is a landmark development in this new town of Xingsha. Phases 1, 2A, 2B and 3A were completed and delivered to buyers already. A new prestigious school in Changsha, namely Datong Xingsha Primary School, has also been built and become operational. The remaining phases will provide approximately 2,050,000 square feet of residential area, in addition to 320,000 square feet of serviced apartments and commercial facilities upon their successive completion during the period from 2018 to 2019.

*(*CIFI Holdings (Group) Co. Ltd. ("CIFI") will participate in the development of Phases 3B and 3C and will share 30% of their costs and economic interests.)*

Chengdu

Chengdu ICC (30% owned)

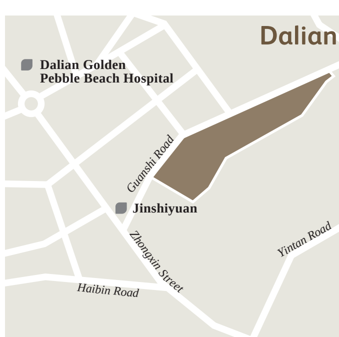
Chengdu ICC, Chengdu

The 14,000,000-square-foot Chengdu ICC is a sizeable integrated development located in the business hub of Chengdu. Its closeness to the Tazishan Park and Shahe River affords the development a lush and vibrant environment. Its retail podium will be linked to an interchange station of two subway lines, providing convenient access to the Chengdu East rail station and other parts of the city.

The development will include about 7,000,000 square feet of residences, 4,000,000 square feet of office space, 1,800,000 square feet of retail space and a five-star hotel. Phase 1 provides over 900 units covering 1,600,000 square feet of gross floor area, which were virtually sold out and handed over to buyers before mid 2016. Scheduled to be handed over to buyers in the first half of 2018, the first two residential towers of Phase 2 spanning about 700,000 square feet of gross floor area were also virtually sold out. The remaining two residential towers of Phase 2 will provide about 1,000,000 square feet of gross floor area upon scheduled completion in 2019. Meanwhile, construction of the 1,200,000-square-foot shopping mall is currently under way, with the first phase of around 790,000 square feet scheduled for completion in 2019.

Dalian

Henderson • Country Garden Jin Shi Tan Project (50% owned)



Henderson • Country Garden Jin Shi Tan Project, Dalian (artist's impression)

Located in Jin Shi Tan scenic spot with a light-rail station and Maple Leaf International School in the proximity, a site of about 3,200,000 square feet will be developed in phases into a low-density luxury residential project. Complemented by a resident clubhouse and commercial facilities, it will provide an aggregate gross floor area of about 1,400,000 square feet for about 1,600 households, of which over 900 residences and commercial facilities under Phase 1 were completed and delivered to buyers. Construction of Phases 2 and 3 is in progress and launched for sales in 2017.

Haizhu Square Station Project, Guangzhou
(artist's impression)

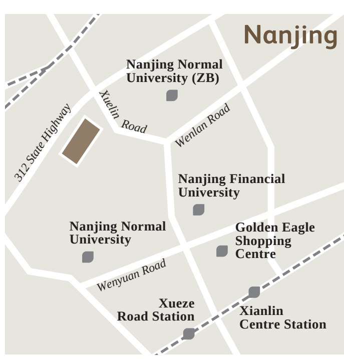
Guangzhou

Haizhu Square Station Project (100% owned)

In the Yuexiu District of Guangzhou, "Haizhu Square Station Project" will be another iconic integrated development, sitting on the banks of Pearl River with direct connection to two subway lines. In June 2017, against an increased site area of about 340,000 square feet, an underground space of about 430,000 square feet was added to this large-scale project at a consideration of about RMB640 million and became available for commercial use. An open activity space will extend from the shopping mall to the expanded underground piazza, combining shopping, leisure and entertainment interaction all into a dynamic integrated experience. The upscale shopping mall and two Grade-A office towers, with a total gross floor area of about 1,800,000 square feet, are scheduled for completion in late 2019.

Nanjing

Emerald Valley (100% owned)



Emerald Valley, Nanjing

Located in Xianlin New District, this land lot of approximately 1,600,000 square feet will be developed in three phases into a high-end residential project, complemented by a nursery, amenities and a community centre and other facilities, providing an aggregate gross floor area of about 1,100,000 square feet. With the relocation of universities and colleges into this district and the opening of Xianlin Centre subway station, this university town's community facilities and transportation network are being further enhanced. Phases 1 and 2 were completed already. Phase 3 of the development, comprising mainly the commercial and community facilities, is now under development.

Shanghai

Xu Hui Riverside Commercial Project (100% owned)

Xu Hui Riverside Commercial Project, Shanghai (artist's impression)

At the Bund extension along the Huangpu River, Xuhui District, two office/commercial sites, which were acquired in July 2015 and January 2017 respectively, are now planned to be jointly developed as a large-scale integrated development. With well-established local infrastructure and excellent Bund views, the project will be developed as a landmark comprising about 2,670,000 square feet of Grade-A offices and about 350,000 square feet of retail spaces. Construction is now underway and the entire project will be completed in two phases from 2019 to 2020.

Shanghai

Huaihai Middle Road Project (50% owned)

Huaihai Middle Road Project, Shanghai (artist's impression)

The advantageous location of being close to both Madang Road and Xintiandi subway stations, together with its green features and intelligent facilities make this office development a new benchmark in the Huaihai Middle Road business hub. Foundation work is underway. The project, which comprises office and retail space with an aggregate gross floor area of about 280,000 square feet, is slated for completion in the fourth quarter of 2020.

Shanghai

Lin Gang Nanhui New Town Project (Lot NNW-C4A-02) (32% owned)

Lin Gang Nanhui New Town Project (Lot NNW-C4A-02), Shanghai (artist's impression)

This project is situated at Lin Gang New Town, Pudong. With a total gross floor area of about 793,000 square feet, the project will contain 819 units in a blend of houses and high-rise apartments. It is planned for a single-phased completion in the third quarter of 2019.

Shanghai

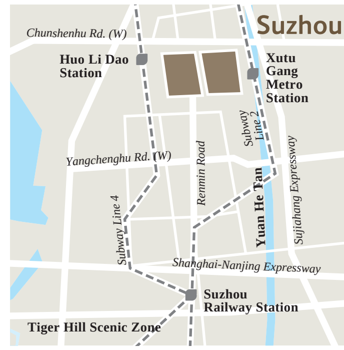
Lin Gang Nanhui New Town Project (Lot NNW-C4D-08, NNW-C4D-09) (25% owned)

Lin Gang Nanhui New Town Project (Lot NNW-C4D-08, NNW-C4D-09), Shanghai (artist's impression)

In Lin Gang New Town, Pudong, two adjoining land lots will be jointly developed into a low-density residential development, providing a total gross floor area of about 830,000 square feet against the total site areas of about 690,000 square feet. Offering nearly 900 apartment units, the project is complemented by ample greenery and a wide range of amenities. It is scheduled for a single-phased completion in the second quarter of 2019.

Riverside Park, Suzhou

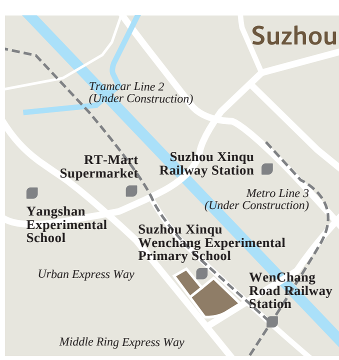
Suzhou
Riverside Park (100% owned*)



Riverside Park, a community development project in Xiangcheng District, is supported by increasingly improved facilities. Benefitting from Suzhou's picturesque beauty and reputation as the "Venice of the East", the development nestles among scenic water themed surroundings. The entire project will have over 6,360,000 square feet of gross floor area to be completed in six phases. Phases 1 to 5, with a total gross floor area of about 5,150,000 square feet for 4,191 residences, have been completed already, whilst the remaining 1,090,000 square feet for 892 luxury residences under Phase 6 is under construction. Adjacent to the residential community of Riverside Park, there is an integrated commercial project. Phase 1, which boasts a total gross floor area of about 990,000 square feet, was completed and delivered in the second quarter of 2017.

*(*CIFI will participate in the development of Phase 5 (Block Nos. 24 and 30) and Phase 6 and share 30% of their costs and economic interests.)*

Suzhou
Henderson • CIFI City (50% owned)



Henderson • CIFI City, Suzhou

Located in Xushuguan Development Zone of Gaoxin District, this community development will provide a total residential gross floor area of over 4,200,000 square feet for 3,862 households, complemented by supporting facilities, on the site area of about 1,800,000 square feet. It will be developed in three phases with the scheduled completion for the whole project in the second quarter of 2019.

Suzhou
Luzhi Project (50% owned)

Luzhi Project, Suzhou (artist's impression)

Located in Luzhi, Wuzhong District, this low-density residential development spans over a site area of about 310,000 square feet, offering 340 apartment units with a total gross floor area of about 460,000 square feet. This project also boasts a sizeable central landscaped garden so as to offer a healthy and comfortable living environment. Foundation work is in progress and it is scheduled for completion in the second quarter of 2019.

Suzhou
Xukou Project (50% owned)

Xukou Project, Suzhou (artist's impression)

Located in Wuzhong District of Western Suzhou, the 520,000-square-foot land lot in Xukou is being developed into 1,149 residential units with a total gross floor area of over 1,300,000 square feet. The transportation convenience will be further enhanced by its strategic location, which is right above a subway station linking the currently under-construction Line No. 5. Foundation work is underway and it is slated for completion in the third quarter of 2019.

Xian

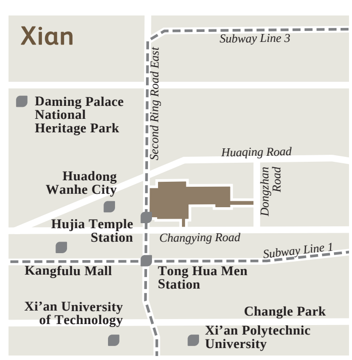
La Botanica (50% owned)

La Botanica, Xian (artist's impression)

Jointly developed by the Group and CapitaLand Township Private Limited of Singapore, La Botanica is located within the scenic Chan Ba Ecological District with a subway line connecting it to the city centre. This community development will have a total gross floor area of about 32,400,000 square feet, providing homes for over 28,000 households upon full completion. Phases 1A, 1B (C1 and C2), 2A, 3A (C1 and C2) and 2R6, 4R1, 2R2 (C1 and C2) and 2R4, with a total gross floor area of 14,440,000 square feet, were completed and delivered to buyers. Phases 3R2 and 2R5 (first section), which comprise about 2,160,000 and 1,520,000 square feet of residences respectively, have been put up for successive sales launch since the first half of 2017. Phase 2R5 (second and third sections), with a total gross floor area of 1,900,000 square feet, commenced its construction in the fourth quarter of 2017. Phase 3R4 with 1,460,000 square feet of floor area is planned to commence its construction in the second quarter of 2018. Both phases are expected to be put up for sale in the second half of 2018. By the end of 2017, 16,102 residential flats had been sold for the whole project. At site 4M1, the first phase development of an integrated shopping mall commenced its construction in the fourth quarter of 2017 and is planned to open for business in mid-2019.

Xian

Palatial Crest (100% owned)



Palatial Crest, Xian

Adjacent to the Hujia Temple subway station, Palatial Crest is conveniently located at Jinhua North Road on the main artery of Second Ring Road East. The entire project will be completed in three phases, offering a total residential gross floor area of over 3,470,000 square feet for 2,744 households. Phases 1 and 2, comprising an aggregate residential area of about 2,690,000 square feet, were completed. Phase 3, comprising approximately 780,000 square feet of deluxe high-rise residential apartments, commenced construction in the third quarter of 2014. The first batch has been handed over to buyers in the third quarter of 2017 and the remainder will be delivered in the second quarter of 2019, respectively.

Xuzhou

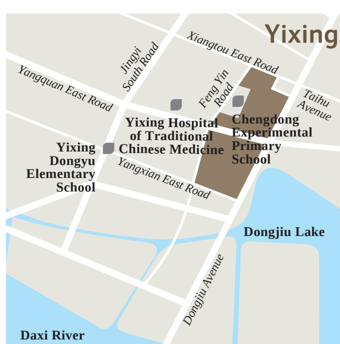
Xuzhou Lakeview Development (100 % owned)

Xuzhou Lakeview Development, Xuzhou

Catering to mid to high-end home buyers, Xuzhou Lakeview Development benefits from the beautiful natural landscape of Dalong Lake, convenient transportation and a comprehensive range of facilities. The project, which includes luxury detached houses, high rise apartments, commercial premises and other facilities, will be completed in four phases, providing a total residential area of approximately 4,500,000 square feet for 3,541 households. This project also boasts a commercial area of about 650,000 square feet, which is set for completion in 2018.

Yixing

Grand Lakeview (100 % owned*)



Grand Lakeview, Yixing

Set amongst lush, tranquil surroundings in Dongjiu District, Grand Lakeview is just a five-minute drive away from the city centre. To be completed in six phases, this lakefront development offers luxury living in a mix of semi-detached and duplex houses, multi-storey and low-rise apartments, providing an aggregate gross floor area of about 9,000,000 square feet for over 6,800 households. Phases 1A/1B/1C/1D at Site F, as well as Phases 1A/1B/1C at Site B1, were both completed providing residential/commercial area of about 3,550,000 square feet in aggregate. Phases 2 and 3 at Site F, as well as Phases 2 and 3 at Site B1, will in aggregate provide a residential/commercial area of about 5,450,000 square feet for over 4,300 households. Phase 2A at Site F commenced its construction with the planned completion in the third quarter of 2019. Phase 2 at Site B1 also commenced its construction with the planned completion in the fourth quarter of 2020.

*(*CIFI will participate in its development of Phases 2A, 2B and 3 at Site F and Phases 2 and 3 at Site B1 and share 50% of their costs and economic interests.)*

Major Completed Investment Properties

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet) Commercial	Office	Total	Attributable no. of carpark
Beijing							
World Financial Centre	No. 1 East Third Ring Middle Road, Chaoyang District	2044	100.00	212,644	1,999,947	**2,212,591**	1,163
Shanghai							
Henderson Metropolitan	No. 300 Nanjing Road East, Huangpu District	2053	100.00	406,618	427,980	**834,598**	272
Henderson 688	No. 688 Nanjing Road West, Jingan District	2044	100.00	49,807	660,829	**710,636**	404
2 Grand Gateway	No. 3 Hong Qiao Road, Xuhui District	2043	100.00	–	687,981	**687,981**	–
Centro	No. 568 Heng Feng Road, Jingan District	2042	100.00	65,467	368,658	**434,125**	186
Greentech Tower	No. 436 Heng Feng Road, Jingan District	2042	100.00	52,922	355,882	**408,804**	163
Skycity	No. 547 Tian Mu Road West, Jingan District	2042	100.00	293,448	142,353	**435,801**	272
Guangzhou							
Heng Bao Plaza	No. 133 Bao Hua Road, Liwan District	2040	100.00	653,557	–	**653,557**	347
			Total:	**1,734,463**	**4,643,630**	**6,378,093**	**2,807**

Business Model and Strategic Direction

Business Model

Henderson Land has established a diversified business model which comprises "three pillars" namely, property investment, strategic investments and property development in both Hong Kong and mainland China. The property investment business and strategic investments provide a reliable and growing income source to the Group, while the property development business is a dynamic profit driver.

The Group's property development business in Hong Kong is vertically integrated, enabling the design, development, construction, sales and management of development projects to be executed in an efficient manner. In addition to actively participating in public tenders, the Group also applies a cost effective approach of land banking by acquiring old buildings for redevelopment in the urban areas and converting the land-use of New Territories land in order to obtain development land sites at a reasonable cost. For mainland China projects, the Group focuses on large-scale residential developments in the first-tier cities as well as the second-tier cities with high growth potential, which are characterised by a preponderance of middle class residents, whilst also owning a premier portfolio of commercial investment properties in the first-tier cities.

In Hong Kong, the Group's substantial and diverse property investment portfolio mainly comprises offices and shopping arcades in core areas, as well as a number of large-scale shopping malls located in strategic locations above or adjacent to MTR stations. In mainland China, the Group owns exceptionally well designed and quality large-scale commercial complexes situated in prime locations for rental purposes.

As regards strategic investments, the Group is the largest shareholder of three listed companies, namely, The Hong Kong and China Gas Company Limited ("HKCG"), Miramar Hotel and Investment Company, Limited ("Miramar") and Hong Kong Ferry (Holdings) Company Limited ("HKF"). HKCG is engaged in the production and distribution of gas in Hong Kong and mainland China. Miramar is engaged in property investment, hotel operation and food and beverage operations. HKF is engaged in property development and investment. HKCG, being a public utility company, provides a very substantial income to the Group.

Strategic Direction

The Group is dedicated to maximising value for shareholders over the long term by executing the following strategies:

Building for a sustainable future with low land costs

The Group actively participates in public tenders. In addition, the Group also replenishes its land bank by acquiring old tenement buildings for redevelopment and applying for land-use conversion for its portfolio of New Territories land. Such dual approach to land banking has proven to be a reliable source of land supply with a reasonable acquisition cost, which is beneficial to the Group's development returns in the long term.

As a sustainable property developer, the Group is highly proactive in its commitment to environmental stewardship during the process of its development activities, and carefully anticipates the needs and concerns of society.

Locating prime sites for property investment with a stable income stream

The Group's property investment portfolio is well diversified with commercial properties situated in prime locations, generating a recurring and steady income stream. Furthermore, the department store business operated by the Group's listed subsidiary – Henderson Investment Limited, mainly at the Group's properties, serve to maximise the value and occupancy rate of the Group's investment properties.

Expanding the mainland China market

Property development and property investment in mainland China provide the Group with potential for territorial expansion. The Group will continue to look for development projects in the first-tier cities, as well as those second-tier cities with high growth potential, so as to expand its land bank. Co-operation with local property developers will be enhanced so as to push forward the property development business. In addition, in the central locations of major cities, the Group will actively seek to acquire prime sites for commercial/office developments for long-term investment holding. While the demand for quality office spaces on the mainland is acute, retail malls specifically are facing severe competition from online shopping. The Group will concentrate on the development of Grade-A office buildings. Retail malls will comprise a smaller percentage of the overall rental portfolio.

Holding of strategic investment for constant return

The investments in the three listed associates, HKCG, Miramar and HKF, provide stable and constant returns for the Group. The distinctive business nature of HKCG, in particular, is a supplement to the Group's core businesses of property development and property investment and allows Henderson Land to smooth out the cyclicality of the Group's property development business.

Conservative financial strategy

The Group employs a conservative funding and treasury strategy. It consistently keeps a low to moderate financial gearing ratio with abundant unutilised committed banking facilities in place that are of medium term in tenor. The Group maintains an excellent ongoing relationship with the major commercial banks while endeavouring to diversify its funding sources through debt issuance in different financial markets.

Management discussion and analysis

Results of operations

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

Revenue and profit

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

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

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

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

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

Discussions on the major reportable segments are set out below.

Property development

Gross revenue – subsidiaries

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

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

The gross revenue from property sales in Hong Kong, relating to projects held by the Group's subsidiaries, during the year ended 31 December 2017 was contributed from "AXIS", "PARKER33", "The Zutten" and "Eltanin • Square Mile" (all being property development projects which were completed during the year ended 31 December 2017) in the aggregate amount of HK$5,207 million, as well as from the other major completed projects such as "Double Cove Starview Prime", "Double Cove Grandview", "Double Cove Summit", "Jones Hive", "Global Gateway Tower" and "39 Conduit Road" in the aggregate amount of HK$4,348 million. By comparison, the gross revenue from property sales in Hong Kong during the corresponding year ended 31 December 2016 was contributed as to HK$6,812 million from property development projects which were completed in that year, and as to HK$3,139 million from the other completed projects.

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

Pre-tax profits – subsidiaries, associates and joint ventures

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

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

The increase in the Group's share of pre-tax profits from property sales in Hong Kong during the year ended 31 December 2017 of HK$739 million, or 29%, is mainly attributable to the increase in pre-tax profit contribution from "AXIS", "PARKER33", "The Zutten" and "Eltanin • Square Mile" (all being property development projects which were completed during the year) in the aggregate amount of HK$1,916 million, which is partially offset by the decrease in pre-tax profit contribution from "Double Cove Grandview", "Double Cove Summit" and "High One" (all being property development projects which were completed during the previous year ended 31 December 2016) in the aggregate amount of HK$1,034 million.

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

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

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

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

Property leasing

Gross revenue – subsidiaries

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

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

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

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

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

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

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

Department store operation

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

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

Other businesses

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

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

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

Associates

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

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

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

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

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

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

Joint ventures

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

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

Finance costs

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

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

Revaluation of investment properties and investment properties under development

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

Financial resources and liquidity

Medium Term Note Programme

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

Maturity profile and interest cover

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

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

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

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

The interest cover of the Group is calculated as follows:

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

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

Treasury and financial management

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

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

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

Material acquisition and disposals

Material acquisition

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

Material disposals

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

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

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

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

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

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

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

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

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

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

Charge on assets

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

Capital commitments

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

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

Contingent liabilities

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

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

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

Employees and remuneration policy

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

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

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

Non-adjusting events after the reporting period

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

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

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

Five Year Financial Summary

	Note	Year ended 31 December				
		2013 (restated) HK$ million	2014 (restated) HK$ million	2015 HK$ million	2016 HK$ million	2017 HK$ million
Profit for the year	*1*	15,948	16,752	21,326	21,916	**30,433**
Underlying Profit for the year	*1&2*	9,232^	9,818^	11,009	14,169	**19,557**
		HK$	HK$	HK$	HK$	HK$
Earnings per share	*1&4*	4.08	4.22	5.34	5.48	**7.61**
Underlying earnings per share	*1,2&4*	2.36^	2.47^	2.76	3.54	**4.89**
Dividends per share	*1*	1.06	1.10	1.45	1.55	**1.71**

	Note	At 31 December				
		2013 HK$ million	2014 HK$ million	2015 HK$ million	2016 HK$ million	2017 HK$ million
Investment properties		106,931	117,836	128,597	131,850	**172,673**
Other property, plant and equipment		1,941	1,869	1,692	1,419	**350**
Interest in associates		48,108	50,146	51,953	53,936	**59,506**
Interest in joint ventures		31,046	32,365	35,619	38,728	**44,865**
Inventories		80,233	80,101	81,556	75,242	**73,602**
Net debt	*3*	38,344	37,420	40,317	33,434	**55,631**
Net asset value	*1*	223,402	238,150	251,247	263,534	**293,125**
Net debt to net asset value		17.2%	15.7%	16.0%	12.7%	**19.0%**
		HK$	HK$	HK$	HK$	HK$
Net asset value per share	*1&4*	56.53	59.64	62.80	65.87	**73.26**

^ *Restated as a result of change in the presentation basis of Underlying Profit and Underlying earnings per share as referred to in note 2 below.*

Notes:

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

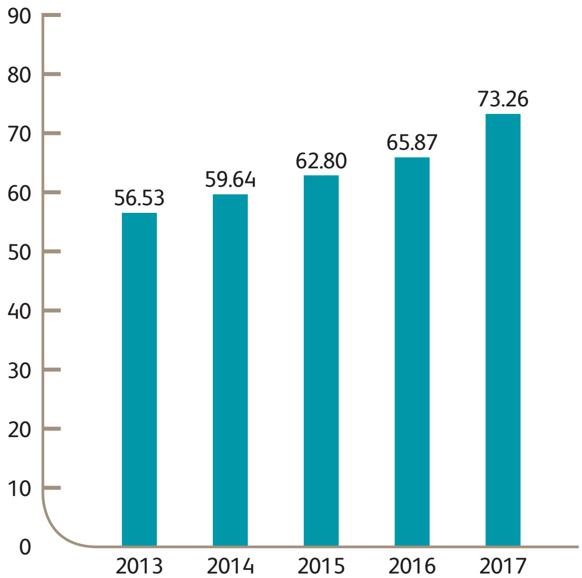
2 *Definitions of "Underlying Profit" and "Underlying earnings per share" are referred to in note 14(b) to the Company's audited consolidated financial statements for the year ended 31 December 2017 as contained in the Company's annual report for the year ended 31 December 2017.*

3 *Net debt represents the total of bank loans, guaranteed notes and the amount due to a fellow subsidiary minus cash and bank balances.*

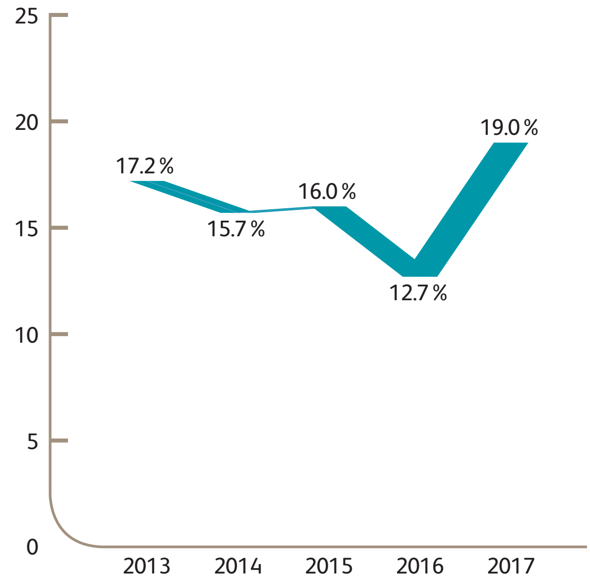
4 *The earnings per share and underlying earnings per share were calculated based on the weighted average number of shares as adjusted for the effect of the bonus issues under HKAS 33, "Earnings per share".*

The net asset values per share were calculated based on the number of issued shares outstanding at the end of the respective reporting periods and adjusted for the effect of the bonus issues.

Net asset value per share (HK$)

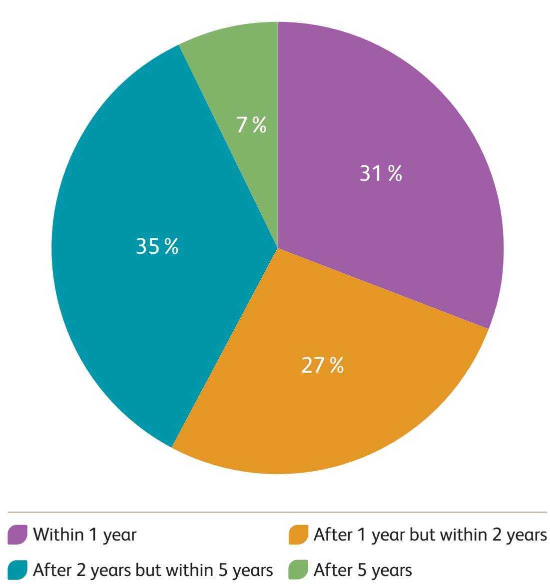


Net debt to net asset value (%)



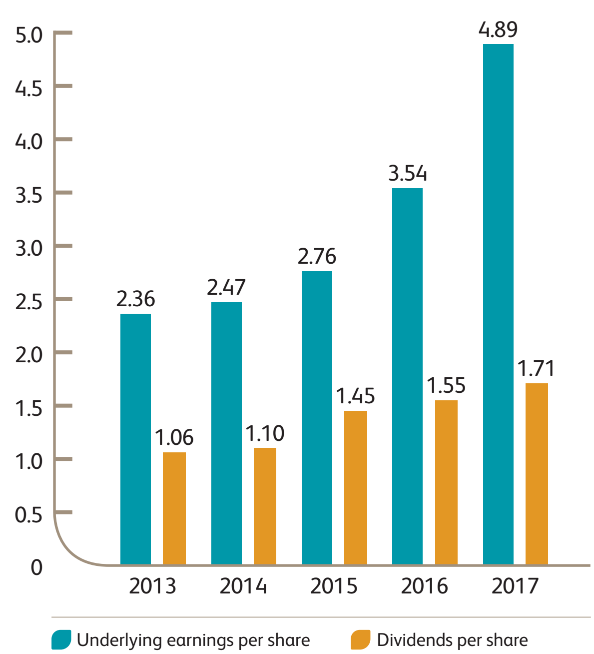
Maturity profile of the Group's bank and other borrowings repayable[note 1]

at 31 December 2017



Note 1: Excluding the amount due to a fellow subsidiary.

Underlying earnings / dividends per share (HK$)



Sustainability and CSR

This section of the Report provides a summary of the Group's strategy and achievements in respect of sustainability. The Group's fourth standalone Sustainability and CSR Report was published in April 2018 in accordance with the core option of the Global Reporting Initiative Sustainability Reporting Standards ("GRI Standards") together with GRI's sector guidance on the Construction and Real Estate Sector, and the Environmental, Social and Governance Reporting Guide ("ESG Guide") set out in Appendix 27 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("HKEX"). The Report showcases the Group's evolving approach to sustainability and annual ESG performance.

The Group places the principles of CSR at the heart of its business. Sustainability and community well-being are core considerations in its business decision making and are prioritised throughout its operations. With the full support of senior management, the Group executes a wide range of CSR projects that align with the needs of society. Regular engagement with stakeholders ensures that the Group's approach to CSR remains relevant and consistent across its operations, and continues to meet stakeholder expectations. Feedback and input from the Group's shareholders, customers, employees, suppliers and the community are collected through regular communication channels, which have provided effective platforms for the Group to identify solutions, gaps and opportunities for improvement.

This year's Report outlines the Group's ESG plans and targets which represent its intention to link its commercial objectives with the broader issues of sustainable growth, social prosperity and the well-being of its stakeholders. To align the Group's CSR efforts with those of the greater sustainable development community, the Group has mapped its material topics to the United Nations' Sustainable Development Goals ("SDGs") and aims to match newly developed targets and goals with several of the SDGs in coming years.

The Group manages its property portfolio with as much consideration to its environmental impacts as possible. Sustainability is a consideration during all project development stages from project planning and design, construction to completion, and through to property management. The Group set a target to reduce energy consumption by 10% in the common areas of 14 of its commercial properties by 2025, as compared with the baseline year 2015. The Group strives to surpass regulatory compliance and adopt international standards in minimising and effectively managing energy, water, materials consumption as well as controlling emissions and waste.

The Group recognizes the importance of environmentally and user-considerate building design to safeguard the health and well-being of its stakeholders. To-date the Group has achieved 11 LEED, 18 BEAM, 26 BEAM Plus and 4 China Green Building Design Label. Furthermore, the Group's 15 Middle Road project achieved WELL Gold Pre-certification from the respected International WELL Building Institute (IWBI). This is the second consecutive year that one of the Group's projects has achieved this standard, following its 18 King Wah Road development becoming the first to be awarded what was, at the time, the highest rating of any completed development project in Hong Kong. The Group is aiming for more of its projects to demonstrate this approach to green building leadership, and to further expand and engage the market with creative solutions that advance both environmental and human health goals.

The Group invests in the personal well-being and professional development of all employees. During 2017, the Group's employees undertook approximately 160,000 hours of learning and development through a range of internal and external training programmes, talks and seminars that are structured to help employees as they join the organisation, to grow within their roles once they are on board, and to lead their teams. The Group complies with local statutory requirements on employment and labour practices and fully complies with the code of practice issued by the Hong Kong Equal Opportunities Commission, which was introduced to legislate against discrimination and harassment in the workplace.

The Group has adopted a multi-layered Occupational Health and Safety (OHS) approach, which covers its offices, construction sites and managed properties. In every one of these operational units, a corresponding task group or department is in place to monitor potential health and safety risks and to implement improvement plans where appropriate. Relevant training and courses are conducted on a timely basis for its employees and site workers, with a particular focus on its construction sites, to manage the risk of accidents. Through these committed efforts, the Group once again reported a low accident rate of 5.8 per 1,000 workers in 2017, compared to the industry average of 34.5 accidents per 1,000 workers in 2016.

The Group follows policies and procedures to select suppliers and contractors who share its social, environmental and labour practice standards. The Group strives to be a professional and trustworthy partner for its business associates so as to reach mutual corporate goals. Reliability, fairness, quality and transparency on both sides of the business relationship form the basis for successful long-term collaboration.

As a prominent corporate citizen, the Group recognizes its role as a community steward. Through community initiatives including volunteerism, and charitable contributions to worthy causes, the Group strives to support the Hong Kong community in an enduring and meaningful way. In 2017, more than 100 community programmes received the Group's support and participation. Furthermore, together with our subsidiaries and associates, the Group's five volunteer teams organised over 350 activities, contributing altogether over 100,000 volunteer hours during the year.

For further details on the Group's environmental policies and its relationship with customers, suppliers, employees, and other key stakeholders, please refer to the Sustainability and CSR Report 2017 on the Company's website www.hld.com.

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 that Dr Lee Shau Kee, with his profound expertise in property business, shall continue in his dual capacity as the Chairman and Managing Director.

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/she gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his/her 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/her 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 Corporate Governance Committee as set up in 2012 has undertaken the corporate governance functions as required under the CG Code. Details of the Corporate Governance Committee are shown in paragraph 4(d) headed “Corporate Governance Committee” below.

(c) Board Composition

The Board currently comprises eighteen members, as detailed below:

Executive Directors	**Non-executive Directors**	**Independent Non-executive Directors**
Dr Lee Shau Kee *(Chairman and Managing Director)*	Lee Pui Ling, Angelina	Kwong Che Keung, Gordon
Dr Lee Ka Kit *(Vice Chairman)*	Lee Tat Man	Professor Ko Ping Keung
Dr Lam Ko Yin, Colin *(Vice Chairman)*		Wu King Cheong
Lee Ka Shing *(Vice Chairman)*		Woo Ka Biu, Jackson
Yip Ying Chee, John		Leung Hay Man
Suen Kwok Lam		Professor Poon Chung Kwong
Fung Lee Woon King		
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

The biographical details of the Directors are set out on pages 125 to 129 of this Annual Report. Dr Lee Shau Kee is the father of Dr Lee Ka Kit and Mr Lee Ka Shing, the brother of Mr Lee Tat Man and Madam Fung Lee Woon King. 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 Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Group’s businesses. The Board also has a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

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 Non-executive Directors and Independent Non-executive Directors brings his/her 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/her 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.

(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 five 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 101.

During the year, the Non-executive Directors (including Independent Non-executive Directors) held a meeting among themselves. In addition, the Chairman held a meeting with the Non-executive Directors (including 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/she 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 125 to 129 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 Shau Kee *(Chairman and Managing Director)*	✓	✓
Lee Ka Kit	✓	✓
Lam Ko Yin, Colin	✓	✓
Lee Ka Shing	✓	✓
Yip Ying Chee, John	✓	✓
Suen Kwok Lam	✓	✓
Fung Lee Woon King	✓	✓
Lau Yum Chuen, Eddie	✓	✓
Kwok Ping Ho	✓	✓
Wong Ho Ming, Augustine	✓	✓
Non-executive Directors		
Lee Pui Ling, Angelina	✓	✓
Lee Tat Man		✓
Independent Non-executive Directors		
Kwong Che Keung, Gordon	✓	✓
Ko Ping Keung	✓	✓
Wu King Cheong	✓	✓
Woo Ka Biu, Jackson	✓	✓
Leung Hay Man		✓
Poon Chung Kwong	✓	✓

4 Board Committees

The Board has five Board Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Corporate Governance 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

The Chairman has 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**
Dr Lee Shau Kee	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 increments 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. In addition, the Remuneration Committee endorsed the remuneration of the new Chief Financial Officer of the Company.

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 181 to 183 while the analysis of the senior management's emoluments by band is set out in note 10 to the financial statements on page 184. At the AGM held on 5 June 2017, the shareholders approved the revised Director's fees as fixed at the rate of HK$150,000 per annum for each Executive Director/Non-executive Director, HK$250,000 per annum for each Independent Non-executive Director and an additional fee for an Independent Non-executive Director acting as member of (i) the Nomination Committee at a fee of HK$100,000 per annum and (ii) the Remuneration Committee at a fee of HK$100,000 per annum with effect from 1 July 2017 until the Company in general meetings otherwise determines. The additional fee for an Independent Non-executive Director acting as member of (i) the Audit Committee remained fixed at HK$250,000 per annum and (ii) the Corporate Governance Committee remained fixed at HK$100,000 per annum. 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**
Dr Lee Shau Kee *(Chairman, in his absence, Professor Ko Ping Keung, acting as 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, extend the term of office of an Independent Non-executive Director, 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) Corporate Governance Committee

The Corporate Governance Committee which was established in October 2012 comprises:

Independent Non-executive Directors
Kwong Che Keung, Gordon *(Chairman)*
Leung Hay Man
Professor Poon Chung Kwong

Each member is sufficiently experienced and is appropriately skilled in the issues of corporate governance. The Company has provided the Corporate Governance Committee with sufficient resources to perform its duties.

The written terms of reference include the duties of developing and reviewing the Company's policies and practices on corporate governance and monitor such policies and practices on compliance with legal and regulatory requirements. The terms of reference of the Corporate Governance Committee are available on the Company's website.

During the year, the Corporate Governance Committee held a meeting to review the Company's policies and practices on corporate governance and formulated the work plan for the 2017 Corporate Governance Report.

(e) 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, the Corporate Governance 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**	**Corporate Governance Committee**	**AGM**
Executive Directors						
Lee Shau Kee *(Chairman and Managing Director)*	4/4[1]	N/A	1/1	2/2	N/A	1/1
Lee Ka Kit	4/4[1]	N/A	N/A	N/A	N/A	1/1
Lam Ko Yin, Colin	4/5	N/A	1/1	2/2	N/A	1/1
Lee Ka Shing	4/4[1]	N/A	N/A	N/A	N/A	1/1
Yip Ying Chee, John	5/5	N/A	N/A	N/A	N/A	1/1
Suen Kwok Lam	5/5	N/A	N/A	N/A	N/A	1/1
Fung Lee Woon King	4/4[1]	N/A	N/A	N/A	N/A	1/1
Lau Yum Chuen, Eddie	5/5	N/A	N/A	N/A	N/A	1/1
Kwok Ping Ho	5/5	N/A	N/A	N/A	N/A	1/1
Wong Ho Ming, Augustine	5/5	N/A	N/A	N/A	N/A	1/1
Non-executive Directors						
Lee Pui Ling, Angelina	5/5	N/A	N/A	N/A	N/A	1/1
Lee Tat Man	1/4[1]	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors						
Kwong Che Keung, Gordon	5/5	3/3	1/1	2/2	1/1	1/1
Ko Ping Keung	5/5	3/3	1/1	2/2	N/A	1/1
Wu King Cheong	5/5	3/3	1/1	2/2	N/A	1/1
Woo Ka Biu, Jackson	5/5	N/A	N/A	N/A	N/A	1/1
Leung Hay Man	2/5	2/3	N/A	N/A	1/1	0/1
Poon Chung Kwong	5/5	N/A	N/A	N/A	1/1	1/1

Remark: 1. *One board meeting was to consider the connected transactions in which Dr Lee Shau Kee, Dr Lee Ka Kit, Mr Lee Ka Shing, Madam Fung Lee Woon King and Mr Lee Tat Man were deemed to have material interests that they were required to abstain from voting and not counted to the quorum. As such, the aforesaid Directors were absent from such meeting.*

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 134 to 139.

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$18.4 million for audit and audit related services (2016: HK$18.3 million) as well as HK$11.1 million for non-audit services (2016: HK$10.2 million). The non-audit services rendered were tax services, corporate and advisory services and other reporting 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 Corporate Social Responsibility

The Company is a founding constituent member of the Hang Seng Corporate Sustainability Index Series launched in July 2010.

A Corporate Social Responsibility Committee, chaired by a Vice Chairman with certain Directors and department heads as members, was formed in 2012 to assist the Board in reviewing the policy on corporate social responsibility and overseeing relevant issues including workplace quality, environmental protection, operating practices and community involvement. The Corporate Social Responsibility Policy and the terms of reference of the Corporate Social Responsibility Committee have been adopted and posted on the Company's website.

During the year, the Corporate Social Responsibility Committee held a meeting to review the corporate social responsibility policy and performance as well as formulate the strategies for the coming year. A standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

11 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 the 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.

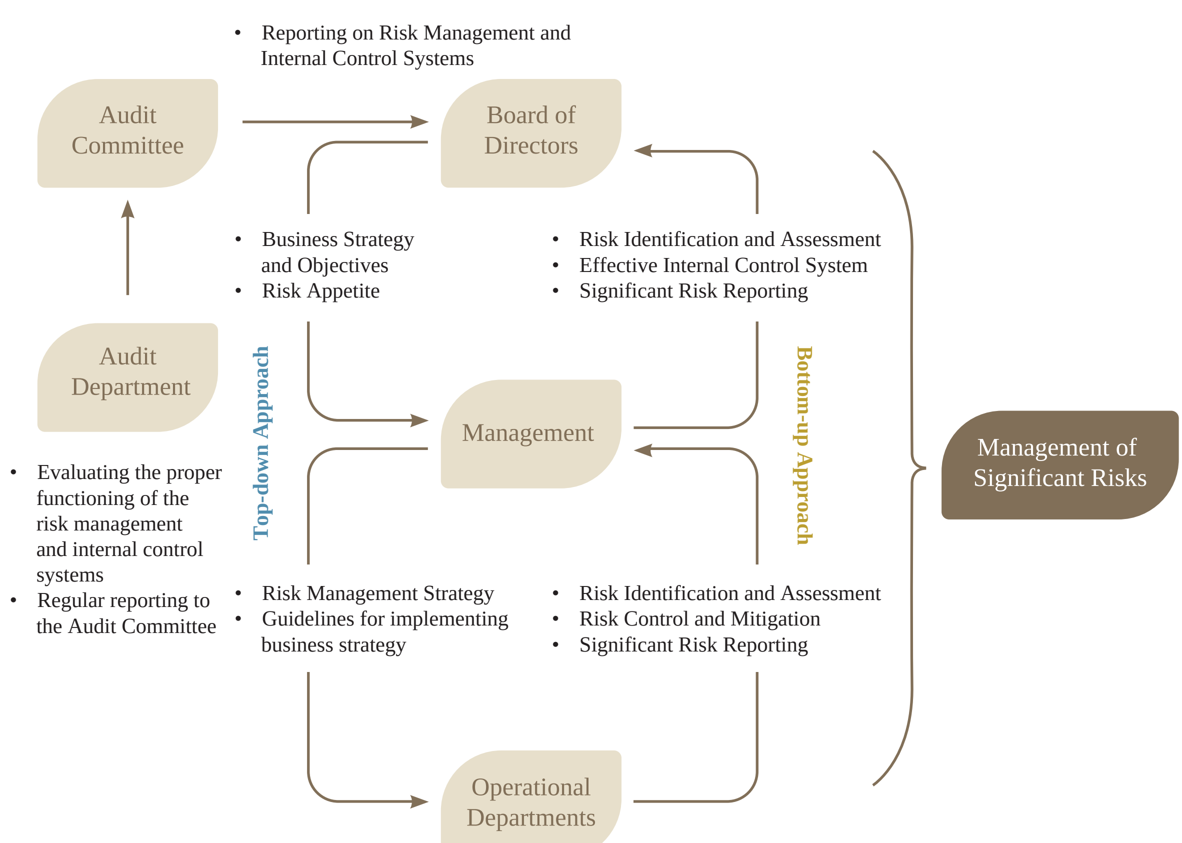
Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The process involves the maintenance of risk register setting out the particulars of material risks together with the control 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

As a listed and a diversified property development and investment, construction and real estate developer company, the Group is exposed to and subject to extensive government policies and regulations of mainland China and Hong Kong. These include the Companies Ordinance, financial and tax legislations, Residential Properties (First-hand Sales) Ordinance, new property control measures by the central and/or local government authorities in the mainland China and construction legislations and regulations, as well as the Listing Rules in Hong Kong.

Any non-compliance with these policies and regulations may cause damage to the Group, delay its project development and affect its 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 staff trainings, sufficient time for review process, compliance handling by experienced and professional staff as well as by consultancy with external experts.

(b) Economic Risk

The Group is dependent on the regional economic conditions in which the Group is active. Global economic uncertainty, prospect of interest rates hike, slowdown of mainland China's economic growth and possible sluggish economy of Hong Kong would adversely affect the Group's profitability.

The Group reviews and optimises its asset portfolio to ensure that it is sufficiently cost effective and efficient. The risk of adverse economic conditions is managed by ensuring proper monitoring of the business performance, and constant assessment of economic conditions and the appropriateness of the prevailing investment and business strategy.

(c) Market Risk

The Group operates in areas that are highly competitive, and failure to compete effectively in terms of price, product quality and specification or levels of service can have an adverse impact on the Group's results. The market demand and supply condition is also one of the significant factors impacting the Group's performance.

The Group manages market risks by keeping track of the property market conditions, strengthening its brand names and product quality, and setting sales strategies commensurate with the market demand.

(d) *Financial Risk*

An effective and sound financial management system is essential to the Group's operations. The Group may be exposed and impacted by factors such as shortage of fund flow, increase in costs of funding and currency fluctuation.

The Group's finance team is embedded within the Group to provide financial management support by monitoring the financial market conditions and setting an appropriate financial strategy. The Group maintains an open and proactive relationship with the banking community, arranges different terms of loan facilities from different sources with different tenures and ensures continuous assessment of counterparty risks.

(e) *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. The image of the Group may be affected by possible oppositions or protests during the property development process, delayed handover of residential units and quality issues.

The Group is committed to employing, training, developing and retaining a diverse and talented workforce to cope with potential complaints and ensuring proper quality delivery. The Group frequently organises brand name promotion events and maintains good public relations.

(f) *Sales, Leasing, Construction and Property Development Risk*

The Group continues to develop its well-planned property development and construction projects. Various measures have been well established to ensure that the development projects are built with high quality standards, on time and within budget.

Whilst the Group ensures that strong management controls are in place and monitoring systems are enforced, it has occasionally encountered increases in development and selling costs, delays in property development, contractors' incapability and contract disputes. Minimal risk has been encountered by Leasing operations.

12 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.

13 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 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 Company Investor Relations on telephone number (852) 2908 8392 or email at ir@hld.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. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. 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.hld.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 property development and investment, construction, hotel operation, finance, department store operation, project management, investment holding and property management.

An analysis of the Group's revenue and contribution from operations by business and geographical segments is set out in note 15 to the financial statements on pages 195 to 201.

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 and Review of Operations on pages 10 to 73 of this Annual Report. Possible risks and uncertainties that the Group may be facing are set out in the Financial Review on pages 76 to 87 and the Corporate Governance Report on pages 92 to 107. 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 10 to 43 and the Financial Statements on pages 140 to 249. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Five Year Financial Summary on pages 88 and 89 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 90 and 91 and pages 92 to 107 of this Annual Report respectively as well as the standalone Sustainability and CSR Report.

The Residential Properties (First-hand Sales) Ordinance (Cap. 621) ("RPFSO") regulates the sales and marketing activities in relation to the first-hand residential properties in Hong Kong, with a view to enhancing the transparency, fairness and consumer protection of the sales of first-hand residential properties. The Group takes particular care to comply with the requirements of the RPFSO through established internal procedures, as well as by engaging external professional advisors including architects, surveyors and solicitors in the checking of the accuracy of the information contained in sales brochures and other relevant documents made available to the public in connection with such sales.

The Group is also committed to safeguarding the security and proper use of personal data. When collecting, processing and using such data in the course of leasing, sale and marketing of properties, the Group complies with the Personal Data (Privacy) Ordinance (Cap. 486) and the guidelines issued by the Office of the Privacy Commissioner for Personal Data from time to time, with a view to protecting the privacy of, amongst others, the purchasers of its properties, in relation to personal data under its management.

In addition, the Group observes the requirements of trademarks, copyrights and other intellectual properties by obtaining the trademark and copyright owners' consent before the use of their products and artworks for the sale promotion of residential units. For the proper use and the protection of the Group's interests, chosen prestige brand names and chosen property names are registered under the Trade Marks Ordinance (Cap. 559) in Hong Kong.

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 pages 241 to 247.

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 140 to 249.

Dividends

An interim dividend of HK$0.48 per share was paid on 18 September 2017. The Directors have recommended the payment of a final dividend of HK$1.23 per share to shareholders whose names appear on the Register of Members of the Company on Monday, 11 June 2018, and such final dividend will not be subject to any withholding tax in Hong Kong.

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

Issue of Bonus Shares

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

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$25,000,000 (2016: HK$21,000,000).

Investment Properties and Other Property, Plant and Equipment

Particulars of the movements in investment properties and other property, plant and equipment during the year are set out in note 16 to the financial statements on pages 202 to 209.

Bank Loans, Guaranteed Notes and Medium Term Note Programme

Particulars of bank loans, Guaranteed Notes and Medium Term Note Programme of the Company and the Group as at 31 December 2017 are set out in notes 28 and 29 to the financial statements on page 225, and pages 226 and 227, respectively.

Interest Capitalised

The amount of interest capitalised by the Group during the year ended 31 December 2017 is set out in note 8(a) to the financial statements on page 179.

Reserves

Particulars of the movements in reserves of the Company during the year ended 31 December 2017 are set out in note 39(b) to the financial statements on page 238.

Shares Issued and Share Capital

During the year, the Company issued 363,740,571 bonus shares on the basis of one share for every ten shares held. The reason for the bonus shares issuance was to enable the shareholders to enjoy a pro-rata increase in the number of shares being held in the Company without incurring any costs.

Details of the Company's share capital are set out in note 39(c) to the financial statements on page 239.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years ended 31 December 2017 are summarised on pages 88 and 89.

Development and Investment Properties

Particulars of development and investment properties of the Group are set out on pages 44 to 73.

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 181 to 183.

Directors

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

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Dr Lee Shau Kee *(Chairman and Managing Director)*	Lee Pui Ling, Angelina	Kwong Che Keung, Gordon
Dr Lee Ka Kit *(Vice Chairman)*	Lee Tat Man	Professor Ko Ping Keung
Dr Lam Ko Yin, Colin *(Vice Chairman)*		Wu King Cheong
Lee Ka Shing *(Vice Chairman)*		Woo Ka Biu, Jackson
Yip Ying Chee, John		Leung Hay Man
Suen Kwok Lam		Professor Poon Chung Kwong
Fung Lee Woon King		
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

Dr Lee Shau Kee, Dr Lam Ko Yin, Colin, Mr Yip Ying Chee, John, Mr Woo Ka Biu, Jackson, Mr Leung Hay Man and Professor Poon Chung Kwong 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.hld.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 Land Development Company Limited	Lee Shau Kee	1	12,850,138		2,900,646,929		2,913,497,067	72.82
	Lee Ka Kit	1				2,900,646,929	2,900,646,929	72.50
	Lee Ka Shing	1				2,900,646,929	2,900,646,929	72.50
	Lee Tat Man	2	182,066				182,066	0.00
	Lee Pui Ling, Angelina	3	53,351				53,351	0.00
	Fung Lee Woon King	4	2,060,445				2,060,445	0.05
	Woo Ka Biu, Jackson	5		3,220			3,220	0.00
Henderson Investment Limited	Lee Shau Kee	6			2,110,868,943		2,110,868,943	69.27
	Lee Ka Kit	6				2,110,868,943	2,110,868,943	69.27
	Lee Ka Shing	6				2,110,868,943	2,110,868,943	69.27
	Lee Tat Man	7	6,666				6,666	0.00
The Hong Kong and China Gas Company Limited	Lee Shau Kee	8			5,808,506,384		5,808,506,384	41.53
	Lee Ka Kit	8				5,808,506,384	5,808,506,384	41.53
	Lee Ka Shing	8				5,808,506,384	5,808,506,384	41.53
	Poon Chung Kwong	9				182,220	182,220	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	10	799,220		119,017,090		119,816,310	33.63
	Lee Ka Kit	10				119,017,090	119,017,090	33.41
	Lee Ka Shing	10				119,017,090	119,017,090	33.41
	Lam Ko Yin, Colin	11	150,000				150,000	0.04
	Fung Lee Woon King	12	465,100				465,100	0.13
	Leung Hay Man	13	2,250				2,250	0.00
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	14			336,173,980		336,173,980	48.53
	Lee Ka Kit	14				336,173,980	336,173,980	48.53
	Lee Ka Shing	14				336,173,980	336,173,980	48.53
Towngas China Company Limited	Lee Shau Kee	15			1,857,788,706		1,857,788,706	67.10
	Lee Ka Kit	15				1,857,788,706	1,857,788,706	67.10
	Lee Ka Shing	15				1,857,788,706	1,857,788,706	67.10

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
Henderson Development Limited	Lee Shau Kee	16			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	17			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	18	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	16				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	17				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	18				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	16				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	17				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	18				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
Best Homes Limited	Lee Shau Kee	19			26,000		26,000	100.00
	Lee Ka Kit	19				26,000	26,000	100.00
	Lee Ka Shing	19				26,000	26,000	100.00
Feswin Investment Limited	Lee Ka Kit	20			5,000	5,000	10,000	100.00

***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
Fordley Investment Limited	Fung Lee Woon King	21	2,000				2,000	20.00
Furnline Limited	Lee Shau Kee	22			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	23			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	22				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	23				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	22				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	23				1 (B Share)	1 (B Share)	100.00
Gain Base Development Limited	Fung Lee Woon King	24	50				50	5.00
Perfect Bright Properties Inc.	Lee Shau Kee	25			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	26			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	25				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	26				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	25				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	26				1 (B Share)	1 (B Share)	100.00

Save as disclosed above, none of the Directors or Chief Executive of the Company or their associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any of 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)	2,900,646,929	72.50
Riddick (Cayman) Limited (Note 1)	2,900,646,929	72.50
Hopkins (Cayman) Limited (Note 1)	2,900,646,929	72.50
Henderson Development Limited (Note 1)	2,898,232,015	72.44
Yamina Investment Limited (Note 1)	1,306,008,240	32.64
Believegood Limited (Note 1)	659,411,516	16.48
South Base Limited (Note 1)	659,411,516	16.48
Persons other than Substantial Shareholders		
Cameron Enterprise Inc. (Note 1)	306,731,747	7.67
Richbond Investment Limited (Note 1)	393,224,710	9.83

Notes:

1. *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 Henderson Development Limited ("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"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of HD and Fu Sang. 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 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.*

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

3. *Mrs Lee Pui Ling, Angelina was the beneficial owner of these shares.*

4. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

5. *These shares were owned by the wife of Mr Woo Ka Biu, Jackson.*

6. *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 in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Henderson Investment Limited 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.*

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

8. *Of these shares, 3,233,610,924 shares and 1,255,954,934 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 1,318,940,526 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and The Hong Kong and China Gas Company Limited ("China Gas") 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.*

9. *These shares were owned by Professor Poon Chung Kwong and his wife jointly.*

10. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 799,220 shares, and for the remaining 119,017,090 shares, 48,817,090 shares were held by Wiselin Investment Limited, 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Pataca Enterprises Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Hong Kong Ferry (Holdings) Company Limited 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.*

11. *Dr Lam Ko Yin, Colin was the beneficial owner of these shares.*

12. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

13. *Mr Leung Hay Man was the beneficial owner of these shares.*

14. This interest included 302,473,980 shares and 33,700,000 warrants, of which 101,835,300 shares and 18,900,000 warrants were owned by Higgins Holdings Limited ("Higgins"), 104,032,680 shares and 14,800,000 warrants were owned by Multiglade Holdings Limited ("Multiglade") and 96,606,000 shares were owned by Threadwell Limited ("Threadwell"), Higgins, Multiglade and Threadwell were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Miramar Hotel and Investment Company, Limited 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.

15. These shares were owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr Lee Shau Kee was taken to be interested in China Gas as set out in Note 8 and Towngas China Company Limited 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.

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

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

18. 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.

19. Of these shares, (i) 10,400 shares were owned by the Company; and (ii) 15,600 shares were owned by Manifest Investments Limited which in turn was 100% held by HD.

20. Of these shares, (i) 5,000 shares were owned by Applecross Limited which was wholly-owned by Dr Lee Ka Kit; and (ii) 5,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andcoe Limited which was wholly-owned by Henderson China Holdings Limited, an indirect wholly-owned subsidiary of the Company.

21. Madam Fung Lee Woon King was the beneficial owner of these shares.

22. These shares were owned by Jetwin International Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in such shares by virtue of the SFO.

23. This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by the Company.

24. Madam Fung Lee Woon King was the beneficial owner of these shares.

25. These shares were owned by Jetwin International Limited.

26. This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by the Company.

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 Connected Transactions/Continuing Connected Transactions

During the year under review, the Group had the following transactions, arrangements and contracts as described below with persons who are "connected persons" for the purposes of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

(1) Henderson Finance Company Limited, a wholly-owned subsidiary of Henderson Development Limited, made unsecured advances from time to time to subsidiaries of the Company up to a maximum aggregate sum of approximately HK$4,563 million during the year, with interest chargeable on the balances outstanding from time to time by reference to HIBOR quoted by banks or Renminbi benchmark loan rates announced by the People's Bank of China (where appropriate). As at 31 December 2017, the aggregate sum owing by subsidiaries of the Company to Henderson Finance Company Limited amounted to approximately HK$1,754 million, which has been included in the financial statements under "Amount due to a fellow subsidiary".

Dr Lee Shau Kee, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in the transactions, arrangements and contracts referred to in the above as directors of the Company's ultimate holding company, Henderson Development Limited (and as more particularly described in the section "Disclosure of Interests" above) with respect to their interests in Henderson Development Limited or the trust.

(2) The Company had the following continuing connected transactions/connected transaction, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

(i) Sunlight Real Estate Investment Trust ("Sunlight REIT") being a trust in accordance with Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code") was regarded by the Stock Exchange as a connected person of the Company under the Listing Rules so long as the aggregate percentage unitholdings in Sunlight REIT held by the Group and the Shau Kee Financial Enterprises Limited group ("SKFE Group") (controlled by a family trust of Dr Lee Shau Kee, the Chairman and Managing Director of the Company) is above 30%. Accordingly, the transactions between the Group and Sunlight REIT group constitute connected transactions of the Company under the Listing Rules.

As disclosed in the announcement dated 13 May 2015, new annual cap amounts in respect of each of the three financial years ending up to 31 December 2018 were set for the continuing connected transactions between the Group and Sunlight REIT group contemplated under the following agreements/deeds:

(a) a property management agreement dated 29 November 2006 was entered into between Henderson Sunlight Asset Management Limited ("HSAM"), a wholly-owned subsidiary of the Company, as manager of Sunlight REIT, and Henderson Sunlight Property Management Limited (the "Property Manager"), a wholly-owned subsidiary of the Company, as property manager of the Sunlight REIT, and the property holding companies under Sunlight REIT group had also subsequently acceded thereto. The property management agreement was thereafter supplemented by three supplemental agreements dated 28 April 2009, 25 June 2012 and 12 May 2015 respectively. The agreement related to the provision of certain property management and lease management as well as marketing services in respect of the properties of Sunlight REIT at a fee of 3% per annum of the gross property revenue of the relevant properties of Sunlight REIT plus a commission on the base rent or licence fee for a tenancy or a licence secured. By the last supplemental agreement entered into between HSAM and the Property Manager, the term of the appointment of the Property Manager for the provision of the said property related management services has been extended (the "Property Management Transactions") to 30 June 2018;

(b) a trust deed dated 26 May 2006 (as supplemented by supplemental deeds dated 1 June 2006, 28 November 2006, 28 April 2009, 23 July 2010 and 30 April 2012, and further supplemented by the supplemental deed dated 16 March 2015 which related to the expansion of the investment scope of Sunlight REIT in alignment with the amendments to the REIT Code, etc.) was entered into between Uplite Limited, a subsidiary of SKFE Group, as settlor, HSAM as manager, and HSBC Institutional Trust Services (Asia) Limited as trustee in respect of, among other things, the appointment of HSAM as the manager of Sunlight REIT for the management and operation of Sunlight REIT at a base fee not exceeding 0.4% per annum of the property values of Sunlight REIT for the relevant financial year and a variable fee of 3% per annum of the relevant net property income of Sunlight REIT payable in the form of cash and/or Sunlight REIT units as HSAM may elect. HSAM is also entitled to an acquisition fee in respect of acquisition of real estate by Sunlight REIT, and a divestment fee in respect of any real estate sold or divested by Sunlight REIT (where applicable) and certain reimbursement (the "Asset Management Transactions");

(c) agreements are entered into from time to time between the Property Manager and Megastrength Security Services Company Limited ("Megastrength"), a wholly-owned subsidiary of the Company, in respect of the provision of security and related services for property(ies) of the Sunlight REIT for various terms, typically of durations ranging from short intervals up to 24 months at fees determined through a tendering/ quotation procedure or on the basis of commercial negotiations. On 16 April 2015, both parties entered into an agreement in relation to the provision of related services to a property owned by Sunlight REIT group for a term of 24 months from 1 May 2015 to 1 May 2017 at a fixed monthly fee of approximately HK$190,000 payable to Megastrength. By a letter of award dated 24 April 2017, the Property Manager awarded the security services contract to Megastrength for an initial term of 14 months commencing from 1 May 2017, which is renewable at the option of the Property Manager to a further term of 12 months subject to the same terms and conditions. The monthly service fee is fixed at approximately HK$228,000 for the first 12 months and approximately HK$235,000 for the remaining term (collectively the "Security Services Transactions"); and

(d) agreements or arrangements are to be entered into from time to time between members of the Group and members of Sunlight REIT group for the provision of other ancillary property services for the properties of Sunlight REIT (the "Other Ancillary Property Services Transactions").

The maximum aggregate sums to be paid by the Sunlight REIT group to the Group under the Property Management Transactions, the Asset Management Transactions, the Security Services Transactions and the Other Ancillary Property Services Transactions will not exceed the following:

Financial year ended 31 December 2017 (HK$ million)	Financial year ending 31 December 2018 (HK$ million)
197	219

For the year ended 31 December 2017, the Group received HK$52,890,000 for the Property Management Transactions, HK$92,193,000 for the Asset Management Transactions and HK$2,675,000 for the Security Services Transactions which in aggregate amounted to HK$147,758,000; while no fee was received for the Other Ancillary Property Services Transactions (collectively the "Sunlight REIT Transactions").

The Audit Department has reviewed the Sunlight REIT Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Sunlight REIT 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/deeds 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 Sunlight REIT Transactions (a) have not received the approval of the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreements/deeds governing such transactions; and (d) 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.

(ii) As disclosed in the announcement dated 17 February 2017, Kingslee S.A., a wholly-owned subsidiary of the Company entered into the sale and purchase agreement with Houston Venture Limited (the "Purchaser"), a wholly-owned subsidiary of Shun Ho Property Investments Limited on 17 February 2017 whereby the Group agreed to sell all issued shares in Enhance Invest Inc. and the outstanding loan owing by Conradion Limited (a wholly-owned subsidiary of Enhance Invest Inc.) to Kingslee S.A. for an aggregate cash consideration of HK$1,000,000,000 (subject to the adjustment) and the relevant transaction had been completed. Conradion Limited is the legal and beneficial owner of the property known as Newton Inn at No.88 Chun Yeung Street, North Point, Hong Kong.

Since (a) Dr Lee Shau Kee is the Chairman of the Company; (b) Mr William Cheng Kai Man is the son-in-law of Dr Lee Shau Kee and the brother-in-law of both Dr Lee Ka Kit and Mr Lee Ka Shing, both of whom are sons of Dr Lee Shau Kee and Directors of the Company; and (c) the Purchaser is a wholly-owned subsidiary of Shun Ho Property Investments Limited which is majority-controlled and held indirectly by Mr William Cheng Kai Man, each of Shun Ho Property Investments Limited and the Purchaser is deemed to be a connected person of the Company under the Listing Rules. The sale and purchase agreement is regarded as a connected transaction of the Company under the Listing Rules.

The material related party transactions set out in note 38 to the financial statements on pages 234 to 236 include transactions that constitute connected transactions/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

Pursuant to Rule 8.10 of the Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended and as at 31 December 2017 were as follows:

Dr Lee Shau Kee, the Chairman of the Company, and Dr Lee Ka Kit and Mr Lee Ka Shing, Directors of the Company, have deemed interests and/or held directorships in companies engaged in the same businesses of property investment, development and management in Hong Kong and mainland China as the Group. As those companies which engage in the same businesses as the Group are involved in the investment, development and management of properties of different types and/or in different locations, and the Group has been operating independently of, and at arm's length from, the businesses of those companies, no competition is considered to exist.

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

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

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 purchase; 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 results for the year ended 31 December 2017 is shown on pages 76 to 87.

Sustainability and Corporate Social Responsibility

The standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

Retirement Benefits Scheme

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Scheme Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. There were no forfeited contributions of the Scheme utilised during the year ended 31 December 2017 (2016: Nil). As at 31 December 2017, there were no forfeited contributions that could be utilised to reduce the Group's contributions to the Scheme (2016: Nil).

No employees of the Group were eligible to join the Fund or the Scheme on or after 1 December 2000.

Employees of the Group who are not members of the Fund or the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of 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. The total amount so utilised in the year ended 31 December 2017 was HK$2,000,000 (2016: HK$1,500,000) and there was no balance available to be utilised as at 31 December 2017 (2016: Nil).

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the profit and loss account for the year ended 31 December 2017 were HK$90,000,000 (2016: HK$92,000,000).

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.

Revolving Credit Agreements with Covenants of the Controlling Shareholders

The Company through its wholly-owned subsidiaries as borrowers, had the following credit facilities from groups of syndicate of banks under separate guarantees given by the Company:

(1) a 4-year term loan, 5-year term loan and revolving credit facilities of up to HK$13,800,000,000 obtained in January 2014 ("HK$13,800 Million Facilities"); and

(2) a 5-year term loan and revolving credit facilities of up to HK$18,000,000,000 obtained in March 2015.

In connection with each of the above credit facilities, it will be an event of default if the Company is deemed to be ultimately controlled by any person(s) other than Dr Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the outstanding amounts (if any) under the respective credit facilities may become due and payable on demand.

The HK$13,800 Million Facilities were fully repaid and cancelled in January 2018.

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 KPMG 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 92 to 107.

On behalf of the Board

Lee Shau Kee

Chairman

Hong Kong, 21 March 2018

Biographical Details of Directors and Senior Management

Executive Directors

Dr the Hon LEE Shau Kee, *GBM, DBA (Hon), DSSc (Hon), LLD (Hon),* aged 89, is the founder of the Company. He has been the Chairman and Managing Director of the Company since 1976 and has been engaged in property development in Hong Kong for more than 60 years. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. He is the founder, and continues to act as an executive director of Henderson Investment Limited after his stepping down as the chairman and managing director on 1 July 2015. He is also 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, Believegood Limited and Cameron Enterprise Inc. which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Mr Lee Tat Man and Madam Fung Lee Woon King, the father of Ms Lee Pui Man, Margaret, Dr Lee Ka Kit and Mr Lee Ka Shing and the father-in-law of Mr Li Ning.

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 of the Company since 1985 and the Vice Chairman since 1993. He was educated in the United Kingdom and has been primarily responsible for the development of the People's Republic of China business of Henderson Land Group since he joined the Company in 1985. He is the vice chairman of Henderson Development Limited ("Henderson Development"). He is also the vice chairman of Henderson Investment Limited 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 and Henderson Development 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 Ms Lee Pui Man, Margaret and Mr Lee Ka Shing, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

Dr LAM Ko Yin, Colin, *SBS, FCILT, FHKIoD, DB (Hon),* aged 66, joined the Company in 1982 and has been an Executive Director since 1985 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 Investment Limited 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 and Believegood Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

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 the Vice Chairman since 2005. He was educated in Canada. Mr Lee is the vice chairman of Henderson Development Limited ("Henderson Development"). On 1 July 2015, he was re-designated from the vice chairman to chairman and managing director of Henderson Investment Limited. He is also the 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, both 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, Believegood Limited and Richbond 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 Ms Lee Pui Man, Margaret and Dr Lee Ka Kit, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

YIP Ying Chee, John, *LLB, FCIS*, aged 69, has been an Executive Director of the Company since 1997. He graduated from The University of Hong Kong and the London School of Economics and is a solicitor, a certified public accountant and a chartered surveyor. He has over 40 years' experience in corporate finance, and corporate and investment management.

SUEN Kwok Lam, *BBS, JP, MH, FHIREA*, aged 71, joined the Company in 1997 and has been an Executive Director of the Company since 2002. He is also an independent non-executive director of China Overseas Property Holdings Limited, a listed company. Mr Suen is the Vice President of Hong Kong Institute of Real Estate Administrators and an individual Member of The Real Estate Developers Association of Hong Kong. He was the President of Hong Kong Association of Property Management Companies from 2003 to 2007. He has over 45 years' experience in property management. He was awarded the Medal of Honour in 2005 and the Bronze Bauhinia Star (BBS) in 2015 and appointed as a Justice of the Peace in 2011 by the Government of the Hong Kong Special Administrative Region respectively.

FUNG LEE Woon King, aged 79, has been an Executive Director of the Company since 1976. She joined Henderson Development Limited ("Henderson Development"), the parent company of the Company as treasurer in 1974 and has been an executive director of Henderson Development since 1979. She is also the Chief Treasurer of Henderson Development Group, Henderson Land Group and Henderson Investment Group. Madam Fung is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development, Yamina Investment Limited, Believegood Limited, Cameron Enterprise Inc., South Base Limited and Richbond Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. She is the sister of Dr Lee Shau Kee and Mr Lee Tat Man and the relative of Dr Lee Ka Kit, Mr Lee Ka Shing, Ms Lee Pui Man, Margaret and Mr Li Ning.

LAU Yum Chuen, Eddie, aged 71, has been an Executive Director of the Company since 1987. He has over 45 years' experience in banking, finance and investment. Mr Lau is also a non-executive director of Hong Kong Ferry (Holdings) Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, both of which are listed companies.

KWOK Ping Ho, *BSc, MSc, Post-Graduate Diploma in Surveying, ACIB,* aged 65, joined the Company in 1987 and has been an Executive Director since 1993. Mr Kwok holds a Master of Science degree in Administrative Sciences from the City University Graduate Business School, London, a Post-Graduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Bachelor of Science (Engineering) (Civil Engineering Group) Honours degree from the University of London. He is an Associate Member of The Chartered Institute of Bankers (A.C.I.B.) of the United Kingdom and had previously been a part-time lecturer for the MBA programme of The University of Hong Kong. In 2012, he was appointed as an Honorary Professor of the Department of Real Estate and Construction, Faculty of Architecture of The University of Hong Kong. He had worked in the international banking field for more than 11 years with postings in London, Chicago, Kuala Lumpur, Singapore as well as in Hong Kong before joining the Company and has over 30 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury and project management activities of Henderson Land Group since 1987, including group re-organisation, privatisation proposals and corporate acquisitions. He is also a non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. Mr Kwok is a director of Believegood Limited which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

WONG Ho Ming, Augustine, *JP, MSc, MEcon, FHKIS, MRICS, MCIArb, RPS (GP),* aged 57, joined the Company in 1996 and has been an Executive Director of the Company since 2010. He is presently the General Manager of Property Development Department as well. He is a registered professional surveyor and has over 33 years' experience in property appraisal, dealing and development. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2008.

Non-executive Directors

LEE Pui Ling, Angelina, *SBS, JP, LLB, FCA,* aged 69, has been a Director of the Company since 1996 and was re-designated as Non-executive Director in 2004. Mrs Lee is a Partner of the firm of solicitors, Woo Kwan Lee & Lo, and is a Fellow of The Institute of Chartered Accountants in England and Wales. Mrs Lee is active in public service and is currently a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and a member of the Takeovers and Mergers Panel of the Securities and Futures Commission. She is also a non-executive director of CK Infrastructure Holdings Limited (formerly known as Cheung Kong Infrastructure Holdings Limited) and TOM Group Limited as well as an independent non-executive director of Great Eagle Holdings Limited, all of which are listed companies. Mrs Lee was previously a Non-executive Director of the Mandatory Provident Fund Schemes Authority and the Securities and Futures Commission.

LEE Tat Man, aged 80, has been a Director of the Company since 1976. He has been engaged in property development in Hong Kong for more than 40 years and is also an executive director of Henderson Investment Limited, a listed company. Mr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Cameron Enterprise Inc. 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 Madam Fung Lee Woon King and the relative of Dr Lee Ka Kit, Mr Lee Ka Shing, Ms Lee Pui Man, Margaret 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 the Corporate Governance 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 Investment Limited, 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.

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 Investment Limited, Q Technology (Group) Company Limited and VTech Holdings Limited, all of which are listed companies.

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 Investment Limited, Hong Kong Ferry (Holdings) Company Limited, Miramar Hotel and Investment Company, Limited and Yau Lee Holdings Limited, all of which are listed companies.

WOO Ka Biu, Jackson, *MA (Oxon)*, aged 55, has been an Independent Non-executive Director of the Company since 2012. He holds an MA degree in Jurisprudence from the Oxford University and is a qualified solicitor in England and Wales, Hong Kong Special Administrative Region and Australia. He is an honorary director of Tsinghua University, a China-Appointed Attesting Officer appointed by the Ministry of Justice, People's Republic of China and a Practising Solicitor Member on the panel of the Solicitors' Disciplinary Tribunal in The Hong Kong Special Administrative Region. Mr Woo was a partner of Ashurst Hong Kong and a director of N M Rothschild & Sons (Hong Kong) Limited ("Rothschild"). Prior to joining Rothschild, Mr Woo was a partner in the corporate finance department of Woo Kwan Lee & Lo. Mr Woo was an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as a non-executive director of the Company. He is a director of Kailey Group of Companies, the Chief Executive Officer of Challenge Capital Management Limited and a consultant of Guantao & Chow Solicitors and Notaries. He is also an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as a non-executive director of Sun Hung Kai Properties Limited, a listed company. He previously served as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. until during the month of August 2017. He is the son of Sir Po-shing Woo.

LEUNG Hay Man, *FRICS, FCIArb, FHKIS,* aged 83, has been a Director of the Company since 1981 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 and the Corporate Governance Committee of the Company. Mr Leung is a Chartered Surveyor. He is also an independent non-executive director of Henderson Investment Limited, Hong Kong Ferry (Holdings) Company Limited and The Hong Kong and China Gas Company Limited, all of which are listed companies.

Professor POON Chung Kwong, *GBS, JP, PhD, DSc,* aged 78, has been an Independent Non-executive Director and a member of the Corporate Governance Committee of the Company since 2012. Professor Poon obtained a Bachelor of Science (honours) degree from the University of Hong Kong, a Doctor of Philosophy degree and a Higher Doctor of Science degree from the University of London. He was a postdoctoral fellow at the California Institute of Technology, University of Southern California and University of Toronto. He also held the Honorary Degree of Doctor of Humanities from The Hong Kong Polytechnic University in 2009. Professor Poon is currently the Chairman of Virya Foundation Limited (a registered non-profit charitable organisation) and he is the President Emeritus and Emeritus Professor of The Hong Kong Polytechnic University and had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Professor Poon was appointed a non-official Justice of the Peace (JP) in 1989 and received the OBE award in 1991, the Gold Bauhinia Star (GBS) award in 2002 by the Government of the Hong Kong Special Administrative Region, and the "Leader of the Year Awards 2008 (Education)". In addition, Professor Poon was appointed a member of the Legislative Council (1985-1991) and a member of the National Committee of the Chinese People's Political Consultative Conference (1998-2013). Professor Poon is the Honorary Professor of a number of top-rated universities in mainland China. Professor Poon is a non-executive director of Lee & Man Paper Manufacturing Limited and an independent non-executive director of The Hong Kong and China Gas Company Limited, Hopewell Highway Infrastructure Limited and Chevalier International Holdings Limited, all of which are listed companies. He served as an independent non-executive director of K.Wah International Holdings Limited, a listed company, until his resignation on 31 July 2015.

Senior Management

YU Wai Wai, *JP, BA (AS), B Arch, FHKIA, HonFHKIPM, Registered Architect (HK), Authorized Person (Architect),* aged 57, joined the Company in 2013 and is presently the General Manager of Project Management (1) Department. He is a Fellow member of the Hong Kong Institute of Architects, an Honorary Fellow of the Hong Kong Institute of Project Management and an Authorized Person (Architect). He has over 32 years of experience in property planning and design, project management, quality management, cost management, land acquisition and customer services. He also has experience in art and cultures, green building innovations, heritage and conservation developments. Mr Yu was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2013. Mr Yu was appointed as the Chairman of Professional Development Committee of the Estate Agents Authority in 2014. Prior to joining the company, he was an Executive Director of Sino Land Company Limited, a listed company.

KWOK Man Cheung, Victor, *BA (AS), B Arch (Dist), MSc (Con P Mgt), EMBA, FHKIA, MAPM, RIBA, Authorized Person (Architect), Registered Architect (HK), PRC Class 1 Registered Architect Qualification,* aged 64, joined the Company in 2005 and is presently the General Manager of Project Management (2) Department. He possesses professional qualifications of both a project manager and an architect. He holds a Bachelor of Architecture (Distinction) degree and a Master of Science in Construction Project Management degree from The University of Hong Kong, and an Executive Master of Business Administration degree from Tsinghua University. He is a Fellow Member of The Hong Kong Institute of Architects and a Member of Association of Project Management. He has over 39 years of professional experience in the property and construction industry of Hong Kong and mainland China.

LEUNG Kam Leung, *MSc, PGDMS, FHKIS, FRICS, RPS (GP),* aged 64, joined the Company in 1997 and is presently the General Manager of Property Planning Department. He has over 41 years' experience in land and property development. He joined the former Public Works Department in 1976 and qualified as a Chartered Surveyor in 1980. He was assigned to an international property consultancy firm in London in 1982 receiving professional training in valuation, town planning and property development. He was promoted to Senior Estate Surveyor and Chief Estate Surveyor of the Lands Department in 1986 and 1994 respectively. He holds an Associateship in General Practice Surveying, a Postgraduate Diploma in Management Studies and a Master of Science degree in International Real Estate. He was sponsored by the Hong Kong Government in 1992 to complete a one-year programme of studies at the Graduate School of Public Policy of the University of California, Berkeley. Mr Leung is a Fellow Member of The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors and a Registered Professional Surveyor. He was a non-official member of the Business Facilitation Advisory Committee, the convenor of the Former Pre-construction Task Force, a member of the Review Panel under the Land (Miscellaneous Provisions) Ordinance, a member of the Real Estate Services Training Board of Vocational Training Council and an external examiner of Master of Science in Real Estate Programme of the Faculty of Architecture of The University of Hong Kong. He is now a member of the Land Sub-committee of the Land and Development Advisory Committee and the convenor of the Planning, Environment and Lands Sub-committee of The Real Estate Developers Association of Hong Kong.

WONG Wing Hoo, Billy, *BBS, JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE,* aged 60, joined the Company in 2006 and is presently the General Manager of Construction Department. He is a fellow member of the Institution of Civil Engineers, Hong Kong Institution of Engineers, Institution of Highways and Transportation and Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance Chapter 409. Mr Wong was appointed as a Justice of the Peace in 2005 and was awarded Bronze Bauhinia Star (BBS) in 2014 by the Government of the Hong Kong Special Administrative Region respectively. He previously served as President of Hong Kong Construction Association, Chairman of Construction Industry Training Authority and Chairman of Construction Industry Training Board. Mr Wong is currently a Director of Hong Kong Science & Technology Parks Corporation, Director of Hong Kong-Shenzhen Innovation and Technology Park Ltd., Board Member of the Airport Authority Hong Kong and Permanent Supervisor of Hong Kong Construction Association.

CHENG Yuk Lun, Stephen, *BSc(Eng), C Eng, MICE, MIStructE, MHKIE, RPE, Registered Structural Engineer, Registered Geotechnical Engineer, Authorized Person (List II), PRC Class 1 Registered Structural Engineer Qualification,* aged 69, joined the Company in 1994 and is presently the Senior General Manager of the Engineering Department. He is a member of the Hong Kong Institution of Engineers, the Institution of Civil Engineers, and the Institution of Structural Engineers. He has over 40 years of professional experience in structural, civil, and geotechnical engineering.

WONG Man Wa, Raymond, *LLB, PCLL, Solicitor,* aged 52, joined the Company in 2012 and is presently the Senior General Manager of Sales Department. He possesses professional qualification as a solicitor in Hong Kong and is presently sitting on a number of professional, government consultative and advisory committees. He is also an individual member of The Real Estate Developers Association of Hong Kong. He holds a Bachelor of Laws (LL.B) degree and a Postgraduate Certificate in Laws (PCLL) from The University of Hong Kong. Prior to joining the Company, he had over 22 years' practical experience as a lawyer specializing in land and property development related works and was a partner of one of the largest international law firms in Hong Kong.

LAM Tat Man, Thomas, *MEM(UTS), DMS, EHKIM, MHIREA, China GBL Manager,* aged 58, joined the Company in 1983 and is presently the General Manager of Sales (1) Department. He holds a Master Degree in Engineering Management from the University of Technology, Sydney, Australia and a Diploma in Management Studies from The Hong Kong Polytechnic University. He is an Ordinary Member of Hong Kong Institute of Real Estate Administrators and an Executive Member of Hong Kong Institute of Marketing and a China Green Building Label Manager. He has over 34 years' experience in property sales and marketing.

HAHN Ka Fai, Mark, *BSc, MRICS, MHKIS, RPS (GP),* aged 54, joined the company in 2013 and is presently the General Manager of Sales (2) Department. He is a member of both The Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He has over 31 years' experience in property acquisitions, developments, sales and marketing as well as fund raising involving projects in Hong Kong, mainland China, Taiwan and Japan. Prior to joining the Company, he held various senior posts with several leading international property consultancies, Associate Director at Sino Land and Executive Director, Asia/Managing Director, Development at Grosvenor.

CHOI Ngai Min, Michael, *BBS, JP, MBA,* aged 60, joined the Company in 2013 and is presently in charge of China sales and land acquisition. He graduated from the Business Management Department of the Hong Kong Baptist College and holds a Master Degree in Business Administration from the University of East Asia, Macau. He has been in the real estate industry for 37 years and has extensive knowledge and experience in the real estate markets in Hong Kong and mainland China. Mr Choi was appointed as a Justice of the Peace in 2005 and was awarded Bronze Bauhinia Star (BBS) in 2015 by the Government of the Hong Kong Special Administrative Region respectively. Currently, he is the Vice President of The Hong Kong Real Property Federation Limited.

LEE Pui Man, Margaret, *BHum (Hons),* aged 57, joined the Company in 1984 and is presently the Senior General Manager of Portfolio Leasing Department. She holds a B Hum (Honours) degree from the University of London and has over 33 years' experience in marketing development. She is the eldest daughter of Dr Lee Shau Kee, the spouse of Mr Li Ning, the sister of Dr Lee Ka Kit and Mr Lee Ka Shing and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

SIT Pak Wing, *ACIS, FHIREA,* aged 70, joined the Company in 1991 and is presently the General Manager of Portfolio Leasing Department. He is a Member of The Institute of Chartered Secretaries and Administrators, a Fellow Member of the Hong Kong Institute of Real Estate Administrators and an individual Member of The Real Estate Developers Association of Hong Kong. He has over 40 years' experience in marketing development, leasing and property management.

LI Ning, *BSc, MBA,* aged 61, Mr Li, has been appointed an executive director of Henderson Investment Limited since 2014 and is also an executive director of Hong Kong Ferry (Holdings) Company Limited. 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 the son-in-law of Dr Lee Shau Kee, the spouse of Ms Lee Pui Man, Margaret, the brother-in-law of Dr Lee Ka Kit and Mr Lee Ka Shing and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

Dr WONG Kim Wing, Ball, *BA (AS), B. Arch, PhD (Finance), FHKIA, Registered Architect (HK), Authorized Person (List 1, HK)*, aged 56, joined the Company in 2011 as the group consultant and serves to advise Henderson Land Group in his expert areas of sales and marketing, leasing, and project management. He is also presently acting as the General Manager of Asset Development Department and Comm. & Ind. Properties Department and advises Henderson Land Group on its asset development and asset branding of investment portfolio. Dr Wong is a Registered Architect and Authorized Person in Hong Kong and holds a PhD Degree in Finance from the Shanghai University of Finance and Economics. Prior to joining Henderson Land Group, he was an executive director of CC Land Holdings Ltd., and was the Director (Project and Planning) of The Link Management Limited (as Manager of The Link Real Estate Investment Trust). He had also served Sun Hung Kai Properties Group for over 10 years.

FUNG Hau Chung, Andrew, *BBS, JP, BA*, aged 60, was appointed as the Chief Financial Officer of the Company on 1 August 2017. He holds the Bachelor of Arts Degree from The University of Hong Kong and the Honorary Fellowship awarded by Lingnan University. Mr Fung served as an Executive Director and the Head of Global Banking and Markets of Hang Seng Bank Limited before he stepped down such positions in July 2017. He is the Professor of Practice (Finance) in the School of Accounting and Finance of The Hong Kong Polytechnic University and has about 36 years of experience in banking, capital markets and asset management. Mr Fung is currently a Board Member of the Hospital Authority and the Chairman of Eastern Hospital Governing Committee and a Board Member of the Airport Authority Hong Kong.

LEE King Yue, aged 91, joined Henderson Development Limited, the parent company of the Company on its incorporation in 1973 and has been engaged with Chairman in property development for over 60 years. Mr Lee was an Executive Director of the Company for about 40 years until his stepping down from the board on 2 June 2016. He is an executive director of Henderson Real Estate Agency Limited and also a director of various members of the Group. He performs a senior executive role in the Finance Department of the Group and is responsible for the Group’s property mortgage loans business.

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 Company 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 Company, Mr Wong was the Chief Financial Officer of Kerry Properties Limited between December 2004 and May 2007.

NGAN Suet Fong, Bonnie, *BBA*, aged 60, joined the Company in 2005 and is presently the General Manager of Corporate Communications Department. Ms Ngan graduated from the University of Wisconsin, USA. She has over 35 years of experience in both banking and real estate industries, and has held senior positions in corporate communications, marketing, retail banking and e-business. Prior to joining the Company, Ms Ngan was the General Manager, Corporate Communications and Public Relations of Hong Kong Tourism Board.

Financial Statements

Report of the Independent Auditor

Independent auditor's report to the members of Henderson Land Development Company Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Henderson Land Development Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 140 to 249, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 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 are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters (continued)

<table>
<tr><th colspan="2">Valuation of investment properties and investment properties under development</th></tr>
<tr><th colspan="2">Refer to note 16 to the consolidated financial statements on pages 202 to 209 and the accounting policy 2(j)(i) on page 154.</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group holds a portfolio of investment properties and investment properties under development located in Hong Kong and across first and second-tier cities in mainland China with a fair value of HK$172,673 million which accounted for 42% of the Group’s total assets as at 31 December 2017. These properties comprise office premises, industrial premises, shopping malls, residential premises and car parking bays.

The fair values of investment properties and investment properties under development as at 31 December 2017 were assessed by the directors based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair value of investment properties and investment properties under development recorded in the consolidated statement of profit or loss represented 30% of the Group’s profit before taxation for the year ended 31 December 2017.

We identified valuation of the Group’s investment properties and investment properties under development as a key audit matter because of the significance of investment properties and investment properties under development to the Group’s total assets and the significance of changes in fair value of investment properties and investment properties under development to the Group’s profit before taxation and because the valuation of investment properties and investment properties under development can be inherently subjective and requires significant management judgement and estimation which increases the risk of error or potential management bias, particularly given the number and the diverse nature and location of the investment properties and investment properties under development held by the Group.</td><td>Our audit procedures to address the valuation of investment properties and investment properties under development included the following:
• obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors’ assessment of the fair values of investment properties and investment properties under development was based;
• assessing the external property valuers’ qualifications, experience and expertise in the properties being valued and considering their objectivity and independence;
• with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology and assessing the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data and by utilising the industry knowledge and experience of our internal property valuation specialists;
• comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis;
• conducting site visits to investment properties under development, on a sample basis, to observe the development progress and evaluating management’s development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.</td></tr>
</table>

Key audit matters (continued)

<table>
<tr><th colspan="2">Assessing the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China</th></tr>
<tr><th colspan="2">Refer to note 23 to the consolidated financial statements on page 218 and the accounting policy 2(o) on page 160.</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As at 31 December 2017, the Group owned properties held for/under development for sale and completed properties for sale located in Hong Kong and across various cities in mainland China with carrying amounts of HK$62,944 million in aggregate, which represented 15% of the Group's total assets at that date.

These properties are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires estimations, including expected future selling prices and costs necessary to complete the sale of these properties, and is assessed by Group management with reference to the independent valuations carried out by the external property valuers for certain properties.

Changes in government policies, which affect interest rates, the required reserve ratio for banks and/or mortgage requirements for second-home buyers, could lead to volatility in property prices, particularly for properties in mainland China.

We identified the assessment of the net realisable value of the properties in mainland China as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future selling prices and future construction costs which increases the risk of error or potential management bias.</td><td>Our audit procedures to assess the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China included the following:
• obtaining and inspecting Group management's valuation assessments and/or the external valuation reports prepared by external property valuers engaged by the Group and on which the directors' assessment of the net realisable value of the properties held for/under development for sale and completed properties for sale was based;
• assessing the qualifications, experience and expertise of Group management and/or the external property valuers in the nature and locations of the properties being valued;
• with the assistance of our internal property valuation specialists, discussing with management and/or the external property valuers their valuation methodologies and assessing the key estimates and assumptions adopted in the valuations, including expected future selling prices and costs to completion, by comparing expected future selling prices to, where available, recently transacted prices for similar properties or the prices of comparable properties located in the vicinity of each development, and publicly available construction cost information for properties of a similar nature and location and by utilising the industry knowledge and experience of our internal property valuation specialists;
• conducting site visits to properties under development for sale, on a sample basis, to observe the development progress and evaluating the management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.</td></tr>
</table>

Key audit matters (continued)

Revenue recognition on sale of properties with legal completion pending at the end of the reporting period	
Refer to note 5 to the consolidated financial statements on page 177 and the accounting policy 2(x)(i) on page 165.	
The key audit matter	**How the matter was addressed in our audit**
The Group recorded revenue from the sale of properties of HK$16,522 million for the year ended 31 December 2017. Certain sales of properties in Hong Kong have been recognised as revenue during the reporting period where the legal completion of the sale is scheduled after the end of the reporting period. Revenue arising from sale of properties is recognised upon the later of the signing of a sale and purchase agreement and the physical completion of the properties. This is based on an underlying principle that it is probable that the economic benefits associated with the transaction will flow to the entity. This underlying principle is particularly critical in situations where revenue is recognised prior to the legal completion of a property sale transaction, which is the point in time when the full amount of the sale consideration is settled and legal title of the property is transferred. We identified revenue recognition for those property sale transactions in Hong Kong where legal completion is scheduled after the end of the reporting period as a key audit matter because the assessment of the likelihood of the economic benefits associated with the related transaction flowing to the Group is inherently subjective and requires significant management judgement as to whether they consider it is likely that the buyer will legally complete the sales transaction and pay all amounts due under the contract, particularly when property prices in Hong Kong can be volatile.	Our audit procedures in relation to revenue recognition for such property sale transactions included the following: • assessing the design, implementation and operating effectiveness of management's internal controls over the recording of revenue from the sale of properties; • assessing management's assessment of the probability of the legal completion of the pending property sale transactions occurring and, hence, the collection of the remaining balances of the consideration associated with such transactions where legal completion is scheduled after the end of the reporting period, with reference to the receipt of payments subsequent to the end of the reporting period and other relevant information such as the background of the buyers and their previous sales records with the Group, the timeliness of past settlement of deposits and instalments, correspondence between the Group and the buyers as well as other publicly available information; • comparing the above payment records to the underlying books and records of the Group, on a sample basis; • making enquiries of management about any potential delays or cancellations of the legal completion of property sales transactions.

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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 the directors for the consolidated financial statements

The directors 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.

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 Felix Kwo Hang Lee.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, 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	**24,453**	25,568
Direct costs		**(12,726)**	(14,702)
		11,727	10,866
Other revenue	6	**166**	169
Other net income	7	**5,038**	2,283
Selling and marketing expenses		**(1,077)**	(1,212)
Administrative expenses		**(1,969)**	(1,903)
Profit from operations before changes in fair value of investment properties and investment properties under development		**13,885**	10,203
Increase in fair value of investment properties and investment properties under development	16(a)	**9,911**	7,013
Profit from operations after changes in fair value of investment properties and investment properties under development		**23,796**	17,216
Finance costs	8(a)	**(837)**	(882)
Bank interest income		**633**	327
Net finance costs		**(204)**	(555)
Share of profits less losses of associates		**4,966**	3,891
Share of profits less losses of joint ventures		**4,378**	3,889
Profit before taxation	8	**32,936**	24,441
Income tax	11(a)	**(2,115)**	(2,255)
Profit for the year		**30,821**	22,186
Attributable to:			
Equity shareholders of the Company		**30,433**	21,916
Non-controlling interests		**388**	270
Profit for the year		**30,821**	22,186
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*14(a)*	***HK$7.61***	*HK$5.48**
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*14(b)*	***HK$4.89***	*HK$3.54**

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

The notes on pages 148 to 249 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 12.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

	Note	**2017** **HK$ million**	2016 HK$ million
Profit for the year		**30,821**	22,186
Other comprehensive income for the year (after tax and reclassification adjustments):	13(a)		
Items that will not be reclassified to profit or loss:			
– Share of other comprehensive income of associates and joint ventures		**53**	3
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences: net movement in the exchange reserve		**3,221**	(3,577)
– Cash flow hedges: net movement in the hedging reserve		**156**	45
– Available-for-sale securities: net movement in the fair value reserve		**245**	68
– Share of other comprehensive income of associates and joint ventures		**1,524**	(1,089)
Other comprehensive income for the year		**5,199**	(4,550)
Total comprehensive income for the year		**36,020**	17,636
Attributable to:			
Equity shareholders of the Company		**35,627**	17,386
Non-controlling interests		**393**	250
Total comprehensive income for the year		**36,020**	17,636

The notes on pages 148 to 249 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2017

	Note	At 31 December 2017 HK$ million	At 31 December 2016 HK$ million
Non-current assets			
Investment properties	16	**172,673**	131,850
Other property, plant and equipment	16	**350**	1,419
Interest in associates	18	**59,506**	53,936
Interest in joint ventures	19	**44,865**	38,728
Derivative financial instruments	20	**111**	358
Other financial assets	21	**11,937**	10,854
Deferred tax assets	11(c)	**424**	377
		289,866	237,522
Current assets			
Deposits for acquisition of properties	22	**1,666**	4,608
Inventories	23	**73,602**	75,242
Trade and other receivables	24	**19,452**	10,651
Cash held by stakeholders		**2,333**	1,289
Cash and bank balances	26	**24,673**	22,966
		121,726	114,756
Asset of the disposal group classified as held for sale	32	**–**	3,220
		121,726	117,976
Current liabilities			
Trade and other payables	27	**23,355**	21,223
Bank loans	28	**23,506**	14,392
Guaranteed notes	29	**1,169**	5,760
Tax payable		**1,968**	1,054
		49,998	42,429
Liabilities associated with asset of the disposal group classified as held for sale	32	**–**	32
		49,998	42,461
Net current assets		**71,728**	75,515
Total assets less current liabilities		**361,594**	313,037

Consolidated Statement of Financial Position

at 31 December 2017

	Note	At 31 December 2017 HK$ million	At 31 December 2016 HK$ million
Non-current liabilities			
Bank loans	28	**45,671**	28,086
Guaranteed notes	29	**8,204**	7,846
Amount due to a fellow subsidiary	30	**1,754**	316
Derivative financial instruments	20	**746**	906
Deferred tax liabilities	11(c)	**6,607**	6,582
		62,982	43,736
NET ASSETS		**298,612**	269,301
CAPITAL AND RESERVES	31		
Share capital	39(c)	**52,345**	52,345
Other reserves		**240,780**	211,189
Total equity attributable to equity shareholders of the Company		**293,125**	263,534
Non-controlling interests		**5,487**	5,767
TOTAL EQUITY		**298,612**	269,301

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

Lee Shau Kee
Lee Tat Man
Directors

The notes on pages 148 to 249 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$ million	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2016		52,345	16	3,591	259	(648)	92	195,592	251,247	5,022	256,269
Changes in equity for 2016:											
Profit for the year		–	–	–	–	–	–	21,916	21,916	270	22,186
Other comprehensive income for the year	13(c)	–	–	(4,957)	325	99	–	3	(4,530)	(20)	(4,550)
Total comprehensive income for the year		–	–	(4,957)	325	99	–	21,919	17,386	250	17,636
Transfer to other reserves		–	–	–	–	–	67	(67)	–	–	–
Bonus shares issued	39(c)	–	–	–	–	–	–	–	–	–	–
Dividend approved in respect of the previous financial year	12(b)	–	–	–	–	–	–	(3,538)	(3,538)	–	(3,538)
Dividend declared and paid in respect of the current year	12(a)	–	–	–	–	–	–	(1,528)	(1,528)	–	(1,528)
Share of associates' reserves		–	–	–	–	–	–	(33)	(33)	–	(33)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(1,282)	(1,282)
Increase in shareholding in subsidiaries		–	–	–	–	–	–	–	–	(69)	(69)
Advance from non-controlling interests, net		–	–	–	–	–	–	–	–	1,846	1,846
Balance at 31 December 2016		52,345	16	(1,366)	584	(549)	159	212,345	263,534	5,767	269,301

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$ million	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2017		52,345	16	(1,366)	584	(549)	159	212,345	263,534	5,767	269,301
Changes in equity for 2017:											
Profit for the year		–	–	–	–	–	–	30,433	30,433	388	30,821
Other comprehensive income for the year	13(c)	–	–	4,841	200	100	–	53	5,194	5	5,199
Total comprehensive income for the year		–	–	4,841	200	100	–	30,486	35,627	393	36,020
Transfer from other reserves		–	–	–	–	–	(43)	43	–	–	–
Bonus shares issued	39(c)	–	–	–	–	–	–	–	–	–	–
Dividend approved in respect of the previous financial year	12(b)	–	–	–	–	–	–	(4,110)	(4,110)	–	(4,110)
Dividend declared and paid in respect of the current year	12(a)	–	–	–	–	–	–	(1,921)	(1,921)	–	(1,921)
Share of associates' reserves		–	–	–	–	–	–	(5)	(5)	–	(5)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(567)	(567)
Transfers of subsidiaries	34	–	–	–	–	–	–	–	–	(16)	(16)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	(15)	(15)
Repayment to non-controlling interests, net		–	–	–	–	–	–	–	–	(75)	(75)
Balance at 31 December 2017		52,345	16	3,475	784	(449)	116	236,838	293,125	5,487	298,612

The notes on pages 148 to 249 form part of these 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		**32,936**	24,441
Adjustments for:			
– Interest income		**(954)**	(612)
– Dividend income from investments in available-for-sale securities	8(d)	**(214)**	(263)
– Net (gain)/loss on disposal of investment properties	7	**(1,211)**	32
– (Reversal of provision)/provision on inventories, net	7	**(25)**	332
– (Reversal of impairment loss)/impairment loss on trade debtors	7	**(2)**	11
– Net gain on transfers of subsidiaries	7 & 34	**(3,837)**	(1,959)
– Net gain on winding-up of subsidiaries	7	**(33)**	–
– Net gain on disposal of available-for-sale securities	7	**(336)**	(2)
– Net fair value (gain)/loss on derivative financial instruments:			
Interest rate swap contracts	7	**(21)**	(597)
Other derivatives	7	**35**	(78)
– Cash flow hedges: reclassified from hedging reserve to profit or loss	7	**371**	12
– Increase in fair value of investment properties and investment properties under development	16(a)	**(9,911)**	(7,013)
– Finance costs	8(a)	**837**	882
– Depreciation	8(d)	**94**	106
– Share of profits less losses of associates		**(4,966)**	(3,891)
– Share of profits less losses of joint ventures		**(4,378)**	(3,889)
– Net foreign exchange gain		**(55)**	(67)
– Other cash flows from operating activities		**(2)**	2
Operating profit before changes in working capital		**8,328**	7,447
Increase in instalments and loans receivable		**(2,647)**	(3,209)
Increase in deposits for acquisition of properties		**(310)**	(23)
(Increase)/decrease in inventories (other than through transfers of subsidiaries and transfers to/from investment properties)		**(3,685)**	4,269
Increase in debtors, prepayments and deposits		**(2,636)**	(2,568)
Increase in gross amount due from customers for contract work		**(6)**	(4)
(Increase)/decrease in cash held by stakeholders		**(1,044)**	1,444
Decrease/(increase) in cash restricted for use		**130**	(520)
Increase/(decrease) in creditors and accrued expenses		**264**	(501)
Increase/(decrease) in gross amount due to customers for contract work		**7**	(14)
(Decrease)/increase in rental and other deposits		**(242)**	386
Increase in forward sales deposits received		**1,303**	576
Cash (used in)/generated from operations		**(538)**	7,283
Interest received		**316**	266
Tax paid			
– Hong Kong		**(839)**	(866)
– Outside Hong Kong		**(733)**	(353)
Net cash (used in)/generated from operating activities		**(1,794)**	6,330

Consolidated Cash Flow Statement

for the year ended 31 December 2017

	Note	**2017 HK$ million**	2016 HK$ million
Investing activities			
Payment for purchase of investment properties and other property, plant and equipment		**(28,000)**	(3,414)
Proceeds from disposal of investment properties and other property, plant and equipment		**3,427**	923
Repayment from associates		**241**	256
(Advances to)/repayment from joint ventures		**(2,744)**	1,450
Additional investments in associates		**(452)**	(93)
Additional investments in joint ventures		**(277)**	–
Payment for purchase of available-for-sale securities		**(741)**	(299)
Payment for purchase of held-to-maturity debt securities		**–**	(31)
Payment for purchase of other derivatives		**(18)**	(2)
Proceeds from sale of available-for-sale securities, net		**1,831**	3
Proceeds from redemption of held-to-maturity debt securities		**633**	112
Net cash outflow in respect of the acquisition of subsidiaries		**(47)**	–
Net cash inflow in respect of the transfers of subsidiaries	34	**9,161**	4,301
Additional investments in subsidiaries		**(17)**	(69)
Interest received		**646**	304
Dividends received from associates		**2,180**	1,991
Dividends received from joint ventures		**1,362**	1,378
Dividends received from available-for-sale securities		**214**	216
Decrease/(increase) in deposits with banks and other financial institutions over three months of maturity at acquisition		**6,293**	(6,503)
Net cash (used in)/generated from investing activities		**(6,308)**	523
Financing activities			
(Repayment to)/advance from non-controlling interests, net	26(b)	**(75)**	1,846
Proceeds from new bank loans	26(b)	**60,741**	30,261
Repayment of bank loans	26(b)	**(34,421)**	(22,825)
Proceeds from issue of guaranteed notes	26(b)	**1,339**	–
Repayment of guaranteed notes	26(b)	**(5,767)**	(2,225)
Increase/(decrease) in amount due to a fellow subsidiary	26(b)	**1,438**	(869)
Interest and other borrowing costs paid	26(b)	**(1,562)**	(1,691)
Distribution to non-controlling interests		**(15)**	–
Dividends paid to equity shareholders of the Company	12	**(6,031)**	(5,066)
Dividends paid to non-controlling interests		**(567)**	(1,282)
Net cash generated from/(used in) financing activities		**15,080**	(1,851)
Net increase in cash and cash equivalents		**6,978**	5,002
Cash and cash equivalents at 1 January		**12,839**	8,465
Effect of foreign exchange rate changes		**1,047**	(628)
Cash and cash equivalents at 31 December	26(a)	**20,864**	12,839

The notes on pages 148 to 249 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2017

1 General information

Henderson Land Development Company 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/F-76/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, department store operation and management, hotel operation and management, construction, finance, project management, investment holding and property management.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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 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 ("Listing Rules"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (collectively 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, which are relevant to the Group's consolidated financial statements for the current accounting period:

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

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

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

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, a new expected credit loss model that replaces the incurred loss impairment model used in HKAS 39, *Financial Instruments: Recognition and Measurement* ("HKAS 39"), and a new hedge accounting model where the hedged ratio is required to be the same as the one used by an entity's management for risk management purposes. Based on management's initial assessment,

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

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

Under HKFRS 16, a lessee is required to recognise at its inception a right-of-use asset and a lease liability in the statement of financial position, and the related depreciation charge on the right-of-use asset and the related interest expenses on the lease liability in the statement of profit or loss. Management has initially assessed that the adoption of HKFRS 16 would affect the leases of properties as a lessee currently classified as operating leases, which 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 36(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. 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.

2 Significant accounting policies (continued)

(c) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise those of the Company and its subsidiaries and have equity accounted for the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as available-for-sale securities (see note 2(g));

– derivative financial instruments (see note 2(h)); and

– investment properties and investment properties under development (see note 2(j)(i)).

The measurement basis of non-current assets held for sale and disposal groups is set out in note 2(l) below.

The preparation of 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. Actual results may differ from these estimates.

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

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

(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 a subsidiary 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 interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests (continued)

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is 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 (see note 2(g)) or, where appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

(e) Associates and joint arrangements

(i) An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(n)). Any excess of acquisition-date fair value over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

2 Significant accounting policies (continued)

(e) Associates and joint arrangements (continued)

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not re-measured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

(ii) A joint operation is a joint arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses attributable to its interest with similar items on a line-by-line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

(f) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the 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. 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 (see note 2(n)).

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.

2 Significant accounting policies (continued)

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Non-derivative financial assets with fixed or determinable payments and maturity dates, and for which the Group has the positive ability and intention to hold to maturity, are classified as held-to-maturity debt securities. Held-to-maturity debt securities are initially recognised at fair value and at the end of each reporting period, they are measured at amortised cost using the effective interest method less impairment losses (see note 2(n)). Foreign exchange gains and losses resulting from changes in the amortised cost of held-to-maturity debt securities are also recognised in profit or loss.

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At the end of each reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(n)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in note 2(x)(vii).

When the investments are derecognised or impaired (see note 2(n)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(i)).

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on re-measurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

2 Significant accounting policies (continued)

(i) Cash flow hedges (continued)

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the financial asset acquired or financial liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point in time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(j) Investment properties and other property, plant and equipment

(i) Investment properties and investment properties under development

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

Investment properties and investment properties under development are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(x)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(m)(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(m).

(ii) Other property, plant and equipment

The following items of other property, plant and equipment are stated at cost less accumulated depreciation (see note 2(k)) and impairment losses (see note 2(n)):

– hotel properties;

– other land and buildings;

– leasehold land classified as being held for own use under finance leases; and

– other items of plant and equipment.

2 Significant accounting policies (continued)

(j) Investment properties and other property, plant and equipment (continued)

(ii) Other property, plant and equipment (continued)

The cost of self-constructed items of other property, plant and equipment includes the costs of materials and direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(z)).

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to retained profits and is not reclassified to profit or loss.

(k) Depreciation

(i) Investment properties and investment properties under development

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

(ii) Hotel properties, leasehold land classified as being held for own use under finance leases and other land and buildings

Depreciation is provided on the cost of the leasehold land of properties over the unexpired terms of the leases. Cost of buildings thereon is depreciated on a straight-line basis over the unexpired terms of the respective leases or 40 years, if shorter.

(iii) Other items of plant and equipment

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

–	Leasehold improvements, furniture and fixtures	5 years
–	Others	2 to 10 years

Where parts of an item of other property, plant and equipment 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.

2 Significant accounting policies (continued)

(l) Non-current assets held for sale and disposal groups

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then on initial classification as held for sale and until the completion of the disposal, the non-current assets (except for certain assets as explained below) or the disposal group are recognised at the lower of their carrying amounts and fair value less costs to sell. The principal exceptions to this measurement policy, so far as the financial statements of the Group are concerned, are deferred tax assets, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent re-measurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(m) 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, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if it were held under a finance lease (see note 2(j)(i)); and

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

2 Significant accounting policies (continued)

(m) 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.

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(j)(i)) or is held for/under development for sale (see note 2(o)(ii)).

(n) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities 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 loss 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;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an available-for-sale security below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(n)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

– 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 present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

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.

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(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:

– Other property, plant and equipment;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company's statement of financial position (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other 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 measureable), or value in use (if determinable).

– Reversals of impairment losses
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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 year in which the reversals are recognised.

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the aforementioned interim period, the Group applies the same impairment testing, recognition and reversal criteria (see notes 2(n)(i) and (ii)) as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which such interim period relates. Consequently, if the fair value of an available-for-sale security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) Leasehold land held for development for sale

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition and the premium, if any, payable to the relevant government authorities. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(ii) Properties held for/under development for sale

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised (see note 2(z)). Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(iii) Completed properties for sale

The cost of completed properties for sale comprises the total land and development costs for that project, being all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined by apportionment attributable to the unsold properties. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs to be incurred in selling the property.

(iv) Retail, catering stocks and trading goods

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.

2 Significant accounting policies (continued)

(p) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(x)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customers are included under “Debtors, prepayments and deposits”. Amounts received before the related work is performed are included under “Creditors and accrued expenses”.

(q) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(r) Interest-bearing borrowings

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

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) 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.

2 Significant accounting policies (continued)

(u) 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 year 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.

(v) 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 the asset 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 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.

2 Significant accounting policies (continued)

(v) Income tax (continued)

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(j)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on the sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets or liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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 realise the assets and settle the liabilities on a net basis, or to realise the assets and settle the liabilities 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 realised, intend to realise the current tax assets and settle the current tax liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

2 Significant accounting policies (continued)

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(w)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other 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)

(x) 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 properties*

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit/a completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have been passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits received.

(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 rentals are recognised as income in the accounting period in which they are earned.

(iii) *Interest income*

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

(iv) *Contract revenue*

When the outcome of a construction contract can be estimated reliably:

– revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total costs of the contract; and

– revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that the contract costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable for such costs to be recoverable.

(v) *Hotel operation*

Income from hotel operation is recognised when services are provided.

(vi) *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.

2 Significant accounting policies (continued)

(x) Revenue recognition (continued)

(vii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(y) Translation of foreign currencies

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 measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the transaction dates. Items in the statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, 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. Goodwill arising on consolidation of a foreign operation acquired before 1 July 2005 is translated into Hong Kong dollars at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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.

(z) Borrowing costs

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

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

2 Significant accounting policies (continued)

(aa) 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.

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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) Valuation of investment properties and investment properties under development

As described in note 16, investment properties and investment properties under development are stated at fair value based on the valuation performed by an independent firm of professional surveyors.

In determining the fair value of investment properties, the valuers have based on a method of valuation which involves, inter alia, certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Investment properties under development are valued by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

(b) Write-down of inventories for property development

Management performs a regular review on the carrying amounts of inventories for property development. Based on management's review, write-down of inventories for property development will be made when the estimated net realisable value has declined below the carrying amount.

In determining the net realisable value of completed properties for sale, management refers to prevailing market data such as recent sales transactions, market survey reports available from independent property surveyors and internally available information, as bases for evaluation.

In respect of leasehold land held for development for sale and properties held for/under development for sale, the estimate of net realisable value requires the application of a risk-adjusted discount rate to the estimated future cash flows to be derived from those properties. These estimates require judgement as to the anticipated selling prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the estimated costs to completion of properties, the legal and regulatory framework and general market conditions.

(c) Impairment of other property, plant and equipment

If circumstances indicate that the carrying amounts of other property, plant and equipment may not be recoverable, the assets may be considered impaired and are tested for 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.

(d) Recognition of deferred tax assets

At 31 December 2017, the Group has recognised deferred tax assets mainly in relation to the unused tax losses as set out in note 11(c). The realisability of deferred tax assets mainly depends on whether it is probable that future taxable profits will be available against which related tax benefits under the deferred tax assets can be utilised, in which case a partial reversal of deferred tax assets may arise and which amount will be recognised in profit or loss for the period in which such a reversal takes place.

4 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, derivative financial instruments as well as instalments, loans, rental and other trade 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. Transactions involving derivative financial instruments are also executed with counterparties of sound credit standing. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties and loans receivable which enable management to assess their recoverability and to minimise the exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowance for impairment losses have been made for estimated irrecoverable amounts.

The Group has no concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Except for the financial guarantees given by the Group as disclosed in note 37 to these financial statements, the Group does not provide any other guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24 to these financial statements.

4 Financial risk management and fair values of financial instruments (continued)

(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 its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Given the amount due to a fellow subsidiary (see note 30) classified as a non-current liability, amounts due to associates and certain amounts due to joint ventures (see note 27) have no fixed terms of repayment, it is not practical to disclose their remaining contractual maturities at the end of the reporting period. Except for these, the following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2017 Contractual undiscounted cash outflow						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	More than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million
Bank loans	24,536	16,433	26,546	4,221	71,736	69,177	14,881	6,042	23,005	–	43,928	42,478
Guaranteed notes	1,618	5,524	1,576	2,304	11,022	9,373	6,211	1,469	6,655	713	15,048	13,606
Creditors and accrued expenses	7,606	–	–	–	7,606	7,606	7,748	–	–	–	7,748	7,748
Rental and other deposits	618	468	418	38	1,542	1,542	929	432	344	43	1,748	1,748
Amount due to a joint venture	252	–	–	–	252	244	–	–	–	–	–	–
	34,630	22,425	28,540	6,563	92,158	87,942	29,769	7,943	30,004	756	68,472	65,580

	2017 Contractual undiscounted cash inflow/(outflow)					2016 Contractual undiscounted cash inflow/(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	More than 5 years HK$ million	Total HK$ million	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Derivative settled net:										
Interest rate swap contracts held as cash flow hedging instruments	(71)	(71)	(200)	(113)	(455)	(247)	(247)	(555)	(321)	(1,370)
Other interest rate swap contracts	(117)	(96)	(113)	88	(238)	–	–	–	–	–
Derivative settled gross:										
Cross currency interest rate swap contracts held as cash flow hedging instruments:										
– outflow	(1,611)	(6,422)	(197)	(91)	(8,321)	(1,699)	(1,602)	(6,440)	(257)	(9,998)
– inflow	1,547	6,221	202	94	8,064	1,382	1,433	6,153	259	9,227
Other cross currency interest rate swap contracts:										
– outflow	(3)	(3)	(10)	(171)	(187)	–	–	–	–	–
– inflow	1	1	3	149	154	–	–	–	–	–

4 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of rates changes on interest-bearing borrowings which predominantly bear floating interest rates. The Group monitors closely its interest rate exposure and the level of fixed rate and floating rate borrowings and considers hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in (ii) below.

(i) Hedging

Cross currency interest rate swap contracts have been entered into with certain counterparty banks in relation to the Hong Kong dollar funding resulting from the conversion of the principal amounts of the guaranteed notes denominated in United States dollars ("US$"), Pound Sterling ("£"), Singapore dollars ("S$") and Japanese Yen ("¥") (see note 29) and the bank borrowings denominated in Japanese Yen into Hong Kong dollars. As a result, the Group hedges against the interest rate risk and foreign currency risk which may arise during the periods (i) between the issuance date and the maturity date in respect of the entire amount of each tranche of the guaranteed notes due 2019-2022 denominated in United States dollars and Pound Sterling with aggregate principal amounts of US$119 million (2016: US$162 million) and £50 million (2016: £50 million) (see note 29(a)) at 31 December 2017; (ii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes due 2019 denominated in United States dollars with aggregate principal amount of US$500 million (2016: US$500 million) (see note 29(b)) at 31 December 2017; (iii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes issued pursuant to the Medium Term Note Programme established by the Group on 30 August 2011 denominated in United States dollars, Singapore dollars and Japanese Yen with aggregate principal amounts of US$10 million, S$200 million and ¥2,000 million (2016: US$10 million and S$200 million) (see note 29(c)) at 31 December 2017; and (iv) between the drawdown dates and the repayment dates in respect of the entire amount of the bank borrowings denominated in Japanese Yen with aggregate principal amount of ¥10,000 million (see note 20(a)) at 31 December 2016 but which were fully repaid during the year ended 31 December 2017.

Interest rate swap contracts have also been entered into with certain counterparty banks to hedge against the interest rate risk which may arise during the periods between the drawdown dates and the repayment dates in respect of certain bank borrowings which bear floating interest rates denominated in Hong Kong dollars with an aggregate principal amount of HK$11,450 million (2016: HK$11,450 million) (see note 20(a)) at 31 December 2017.

Certain cross currency interest rate swap contracts and interest rate swap contracts were entered into for the purpose of hedging against the interest rate risk and foreign currency risk in relation to these guaranteed notes and bank borrowings.

The swap contracts which were designated as cash flow hedges at 31 December 2017 will mature between 19 September 2018 and 20 October 2026 (2016: between 28 February 2017 and 20 October 2026) matching the maturity dates of the related guaranteed notes and the repayment dates of the bank borrowings and have fixed swap interest rates ranging from 2.81% to 5.735% (2016: 2.41% to 5.735%) per annum. The fair value of such swap contracts entered into by the Group at 31 December 2017 amounted to HK$111 million (2016: HK$201 million) (derivative financial assets) and HK$591 million (2016: HK$1,224 million) (derivative financial liabilities), respectively. These amounts are recognised as derivative financial instruments at 31 December 2017 and 2016 (see note 20).

4 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk (continued)

(ii) Interest rate profile

The following table details the interest rate profile of the Group's bank loans, guaranteed notes and amount due to a fellow subsidiary at the end of the reporting period, after taking into account the effect of swap contracts (see (i) above).

	2017		
	Fixed/ floating	**Effective interest rate**	**Amount HK$ million**
Bank loans	**Floating**	**0.98%-3.10%**	**58,587**
Bank loans	**Fixed**	**3.30%-4.40%**	**10,590**
Guaranteed notes	**Floating**	**2.24%-2.38%**	**1,338**
Guaranteed notes	**Fixed**	**4.03%-5.74%**	**8,035**
Amount due to a fellow subsidiary	**Floating**	**1.06%**	**1,754**

	2016		
	Fixed/ floating	Effective interest rate	Amount HK$ million
Bank loans	Floating	0.80%-4.86%	30,486
Bank loans	Fixed	2.57%-4.21%	11,992
Guaranteed notes	Fixed	4.03%-5.74%	13,606
Amount due to a fellow subsidiary	Floating	1.04%	316

(iii) Sensitivity analysis

Assuming that the interest rates had generally increased/decreased by not more than 100 basis points (2016: 100 basis points) at 31 December 2017 and the changes had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, with all other variables held constant, the Group's profit after tax and total equity attributable to equity shareholders of the Company would decrease/increase by HK$256 million (2016: HK$118 million).

The sensitivity analysis above assumes the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. The analysis is performed on the same basis for 2016.

4 Financial risk management and fair values of financial instruments (continued)

(d) Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong and mainland China with its cash flows substantially denominated in Hong Kong dollars and Renminbi, respectively. The Group reports its results in Hong Kong dollars.

The Group's primary foreign currency exposure arises from its property development and investment activities in mainland China, as the functional currency of these operations is Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings with reference to the future Renminbi funding requirements from the investments and the related returns to be generated therefrom.

The Group is also exposed to foreign currency risk in respect of cash deposits denominated in United States dollars, Pound Sterling and Singapore dollars, certain available-for-sale securities and held-to-maturity debt securities which are denominated in United States dollars and certain available-for-sale securities which are denominated in Renminbi, and all of which were not hedged at 31 December 2017. At 31 December 2017, cash deposits denominated in United States dollars amounted to US$900 million (2016: US$1,154 million), and certain available-for-sale securities and held-to-maturity debt securities denominated in United States dollars amounted to US$251 million (2016: US$313 million). The Group does not expect that there will be any significant currency risk associated with the aforementioned cash deposits, available-for-sale securities and held-to-maturity debt securities denominated in United States dollars given that the Hong Kong dollar is pegged to the United States dollar. For cash deposits denominated in Pound Sterling and Singapore dollars as well as certain available-for-sale securities denominated in Renminbi, since the balances are insignificant, the Group considers the exposure to foreign currency risk to be low.

(i) Hedging

The foreign currency risk attributable to certain guaranteed notes denominated in United States dollars, Pound Sterling, Singapore dollars and Japanese Yen (see note 29) are being hedged by way of the cross currency interest rate swap contracts which were entered into between the Group and certain counterparty banks, as a result of which the principal amounts of certain guaranteed notes denominated in United States dollars, Pound Sterling, Singapore dollars and Japanese Yen were converted into Hong Kong dollars, details of which are set out in notes 4(c)(i) and 20(b).

(ii) Sensitivity analysis

Assuming that the relevant foreign currencies had strengthened/weakened by not more than 5% (2016: 5%) at 31 December 2017 and the changes had been applied to each of the Group entities' exposure to foreign currency risk for both derivative and non-derivative financial instruments denominated in a currency other than the functional currency of the entity to which they relate and in existence at that date, with all other variables held constant, the Group's profit after tax and total equity attributable to equity shareholders of the Company would increase/decrease by HK$51 million (2016: HK$59 million).

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2016.

4 Financial risk management and fair values of financial instruments (continued)

(e) Equity price risk

The Group is exposed to equity price and fair value changes arising from financial investments classified as available-for-sale securities (see note 21).

Listed investments held in the available-for-sale securities portfolio have been chosen based on their long term growth potential and returns and are monitored regularly for performance against expectations. Assuming that the market value of the Group's listed available-for-sale securities had increased/decreased by not more than 10% (2016: 10%) at 31 December 2017, with all other variables held constant, the total equity attributable to equity shareholders of the Company would increase/decrease by HK$302 million (2016: HK$311 million). Any increase or decrease in the market value of the Group's listed available-for-sale securities would not affect the Group's profit after tax unless they are impaired.

The sensitivity analysis above assumes that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair value of the Group's financial investments would change in accordance with the historical correlation with the relevant stock market index or other relevant risk variables, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2016.

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

- Level 3 valuations: Fair value measured using significant unobservable inputs.

4 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2017	**Fair value measurements at 31 December 2017 categorised into**	
		Level 1	**Level 2**
	HK$ million	**HK$ million**	**HK$ million**
Recurring fair value measurement			
Financial assets:			
Available-for-sale securities:			
– Listed (note 21)	**3,021**	**3,021**	**–**
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	**111**	**–**	**111**
– Other derivatives (note 20)	**67**	**67**	**–**
Financial liabilities:			
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	**400**	**–**	**400**
– Interest rate swap contracts (note 20)	**428**	**–**	**428**

	Fair value at 31 December 2016	Fair value measurements at 31 December 2016 categorised into	
		Level 1	Level 2
	HK$ million	HK$ million	HK$ million
Recurring fair value measurement			
Financial assets:			
Available-for-sale securities:			
– Listed (note 21)	3,106	3,106	–
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	201	–	201
– Other derivatives (note 20)	164	164	–
Financial liabilities:			
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	898	–	898
– Interest rate swap contracts (note 20)	326	–	326

4 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair values of cross currency interest rate swap contracts and interest rate swap contracts are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract, taking into account the current interest rates and the current creditworthiness of the swap counterparties.

(ii) Financial assets and liabilities measured at other than fair value

The carrying amounts of the Group's financial instruments measured at cost or amortised cost are not materially different from their fair values at 31 December 2017 and 2016 except as follows:

– Certain amounts due from associates and joint ventures and certain amounts due to associates and joint ventures

Certain amounts due from associates and joint ventures and certain amounts due to associates and joint ventures are unsecured, interest-free and have no fixed terms of repayment. Given these terms it is not meaningful to quantify their fair values and therefore they are stated at cost.

– Unlisted investments

Unlisted available-for-sale securities of HK$28 million (2016: HK$378 million) (see note 21) do not have a quoted market price in an active market and their fair values cannot be reliably measured. They are recognised at cost less impairment losses at the end of the reporting period.

– Held-to-maturity debt securities

Held-to-maturity debt securities of HK$485 million (2016: HK$1,083 million) (see note 21) with fair value of HK$508 million (2016: HK$1,136 million) are recognised at amortised cost less impairment losses at the end of the reporting period.

5 Revenue

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

The major items are analysed as follows:

	2017 HK$ million	2016 HK$ million
Sale of properties	**16,522**	17,679
Rental income	**5,678**	5,559
Department store operation	**834**	871
Other businesses	**1,419**	1,459
Total (note 15(b))	**24,453**	25,568

6 Other revenue

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

7 Other net income

	2017 HK$ million	2016 HK$ million
Net gain/(loss) on transfers of subsidiaries regarding (note (i)) (note 34)		
– Investment properties (note (i)(a))	**159**	1,956
– Properties held for development (note (i)(b))	**1,490**	(5)
– Hotel properties (note (i)(c))	**2,188**	–
– Others	**–**	8
	3,837	1,959
Net gain/(loss) on disposal of investment properties	**1,211**	(32)
(Note 15(a))	**5,048**	1,927
Net gain on winding-up of subsidiaries (note (ii))	**33**	–
Net fair value gain/(loss) on derivative financial instruments:		
– Interest rate swap contracts (note (iii))	**21**	597
– Other derivatives	**(35)**	78
Cash flow hedges: reclassified from hedging reserve to profit or loss (note (iv))	**(371)**	(12)
Net gain on disposal of available-for-sale securities	**336**	2
Reversal of impairment loss/(impairment loss) on trade debtors (notes 15(c) and 24(b))	**2**	(11)
Reversal of provision/(provision) on inventories, net	**25**	(332)
Net foreign exchange gain	**79**	108
Others	**(100)**	(74)
	5,038	2,283

Notes:

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

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

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

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

(ii) *The amount represents the net gain on 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.*

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

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

8 Profit before taxation

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

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

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

		2017 HK$ million	2016 HK$ million
(b)	**Directors' emoluments**	**177**	177

Details of the directors' emoluments are set out in note 9.

8 Profit before taxation (continued)

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

		2017 HK$ million	2016 HK$ million
(c)	**Staff costs (other than directors' emoluments):**		
	Salaries, wages and other benefits	**2,048**	1,952
	Contributions to defined contribution retirement plans	**87**	88
		2,135	2,040
(d)	**Other items:**		
	Net foreign exchange loss/(gain)	**416**	(210)
	Cash flow hedges: net foreign exchange (gain)/loss reclassified from equity	**(495)**	102
		(79)	(108)
	Cost of sales		
	— properties for sale	**10,337**	12,206
	— trading stocks	**281**	293
	Auditors' remuneration		
	— audit services	**18**	18
	— non-audit services	**11**	10
	Depreciation (notes 15(c) and 16(a))	**94**	106
	Operating lease charges: minimum lease payments in respect of leasing of building facilities	**235**	220
	Rentals receivable from investment properties less direct outgoings of HK$1,378 million (2016: HK$1,319 million) (note (i))	**(4,140)**	(4,084)
	Rental income from others less direct outgoings of HK$280 million (2016: HK$263 million) (notes (ii) and (iii))	**(356)**	(384)
	Dividend income from investments in available-for-sale securities		
	— listed	**(206)**	(164)
	— unlisted	**(8)**	(99)

Notes:

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

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

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

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	160	22,303	–	–	22,463
Dr Lee Ka Kit	160	18,837	600	18	19,615
Dr Lam Ko Yin, Colin	160	9,837	20,854	589	31,440
Lee Ka Shing	160	13,120	3,374	719	17,373
Yip Ying Chee, John	125	9,011	14,630	538	24,304
Suen Kwok Lam	125	7,090	7,740	418	15,373
Fung Lee Woon King	125	4,999	4,820	298	10,242
Lau Yum Chuen, Eddie	125	19	–	–	144
Kwok Ping Ho	225	4,865	1,420	290	6,800
Wong Ho Ming, Augustine	125	9,629	14,700	576	25,030
Non-executive Directors					
Lee Pui Ling, Angelina	175	150	–	–	325
Lee Tat Man	160	–	–	–	160
Independent Non-executive Directors					
Kwong Che Keung, Gordon	260	690	–	–	950
Professor Ko Ping Keung	260	590	–	–	850
Wu King Cheong	260	590	–	–	850
Leung Hay Man	310	690	–	–	1,000
Woo Ka Biu, Jackson	225	–	–	–	225
Professor Poon Chung Kwong	225	100	–	–	325
Total for the year ended 31 December 2017	3,365	102,520	68,138	3,446	177,469

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	120	21,881	–	–	22,001
Dr Lee Ka Kit	120	18,350	592	18	19,080
Dr Lam Ko Yin, Colin	120	9,645	20,750	577	31,092
Lee Ka Shing	120	12,859	3,000	697	16,676
Yip Ying Chee, John	100	8,883	14,590	527	24,100
Suen Kwok Lam	100	6,805	7,674	405	14,984
Lee King Yue*	50	3,705	305	220	4,280
Fung Lee Woon King	100	4,885	4,640	290	9,915
Lau Yum Chuen, Eddie	100	17	–	–	117
Kwok Ping Ho	200	4,709	1,326	282	6,517
Wong Ho Ming, Augustine	100	9,185	14,516	545	24,346
Non-executive Directors					
Lee Pui Ling, Angelina	150	150	–	–	300
Lee Tat Man	120	–	–	–	120
Independent Non-executive Directors					
Kwong Che Keung, Gordon	220	580	–	–	800
Professor Ko Ping Keung	220	530	–	–	750
Wu King Cheong	220	530	–	–	750
Leung Hay Man	270	680	–	–	950
Woo Ka Biu, Jackson	200	–	–	–	200
Professor Poon Chung Kwong	200	100	–	–	300
Dr Chung Shui Ming, Timpson**	100	50	–	–	150
Total for the year ended 31 December 2016	2,930	103,544	67,393	3,561	177,428

* *Ceased to be Executive Director of the Company with effect from 2 June 2016.*

** *Ceased to be Independent Non-executive Director of the Company with effect from 2 June 2016.*

9 Directors' emoluments (continued)

During the years ended 31 December 2017 and 2016:

(i) all the directors' fees payable to the executive directors of the Company were in respect of their services as directors of the Company and/or its subsidiary undertakings, and all the salaries, allowances, benefits-in-kind, discretionary bonuses and retirement scheme contributions payable to the executive directors of the Company were in respect of their services in connection with the management of the affairs of the Company and/or its subsidiary undertakings; and

(ii) all the emoluments payable to the non-executive directors and the independent non-executive directors of the Company were in respect of their services as directors of the Company and/or its subsidiary undertakings.

There are 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, there was 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/her 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).

There was no arrangement under which a director had waived or agreed to waive any remuneration during the current and prior years.

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, all (2016: all) of them are directors whose emoluments are disclosed in note 9.

(b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in notes 9 and 10(a) respectively, the emoluments of 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 financial statements form a part) fell within the following bands:

	2017 Number of individuals	2016 Number of individuals
Emolument band (HK$) (note)		
$3,000,001 to $4,000,000	**1**	1
$4,000,001 to $5,000,000	**3**	3
$5,000,001 to $6,000,000	**3**	3
$6,000,001 to $7,000,000	**2**	1
$7,000,001 to $8,000,000	**–**	2
$8,000,001 to $9,000,000	**1**	–
$9,000,001 to $10,000,000	**–**	–
$10,000,001 to $11,000,000	**3**	3
$11,000,001 to $12,000,000	**1**	1
$12,000,001 to $13,000,000	**1**	–
$13,000,001 to $14,000,000	**2**	3
$14,000,001 to $15,000,000	**1**	–
	18	17

Note: Including salaries, allowances and benefits-in-kind, discretionary bonuses and retirement scheme contributions.

11 Income tax

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

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

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

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

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

11 Income tax (continued)

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

	2017 HK$ million	2016 HK$ million
Profit before taxation	**32,936**	24,441
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**5,983**	4,216
Tax effect of share of profits less losses of associates and joint ventures	**(1,598)**	(1,301)
Tax effect of non-deductible expenses	**192**	268
Tax effect of non-taxable revenue	**(2,295)**	(1,233)
Tax effect of temporary differences recognised in prior years now derecognised	**(576)**	–
Tax effect of current year's tax losses not recognised	**349**	257
Tax effect of prior years' tax losses utilised	**(82)**	(104)
Tax effect of unused tax losses not recognised in prior years now recognised	**(115)**	(9)
Tax indemnity received	**(1)**	(3)
One-off rebate of Hong Kong Profits Tax	**(2)**	(2)
Land Appreciation Tax	**296**	194
Withholding tax	**5**	5
Over-provision in respect of prior years, net	**(41)**	(33)
Actual tax expense	**2,115**	2,255

11 Income tax (continued)

(c) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK$ million	Revaluation of properties HK$ million	Elimination and capitalisation of expenses HK$ million	Fair value adjustment on business combination HK$ million	Consideration receivable on disposal of toll fee collection right of toll bridges HK$ million	Tax losses HK$ million	Others HK$ million	Total HK$ million
At 1 January 2016	1,485	3,177	505	1,035	6	(353)	(139)	5,716
Exchange adjustments	(36)	(264)	(2)	(3)	–	–	–	(305)
Charged/(credited) to profit or loss	180	445	(10)	56	–	48	97	816
Charged to reserves (note 13(a))	–	–	–	–	–	–	8	8
Transfers of subsidiaries (note 34)	(30)	–	–	–	–	–	–	(30)
At 31 December 2016	1,599	3,358	493	1,088	6	(305)	(34)	6,205
At 1 January 2017	**1,599**	**3,358**	**493**	**1,088**	**6**	**(305)**	**(34)**	**6,205**
Exchange adjustments	**30**	**228**	**1**	**6**	**–**	**–**	**–**	**265**
(Credited)/charged to profit or loss	**(64)**	**51**(*)	**(192)**	**(64)**	**(6)**	**5**	**(53)**	**(323)**
Charged to reserves (note 13(a))	**–**	**–**	**–**	**–**	**–**	**–**	**31**	**31**
Acquisition of subsidiaries	**–**	**–**	**5**	**–**	**–**	**–**	**–**	**5**
Transfers of subsidiaries (note 34)	**(55)**	**–**	**(1)**	**–**	**–**	**56**	**–**	**–**
At 31 December 2017	**1,510**	**3,637**	**306**	**1,030**	**–**	**(244)**	**(56)**	**6,183**

(*) *Represents the net deferred tax charged to profit or loss for the year ended 31 December 2017, comprising the deferred tax charge of HK$238 million on changes in fair value of investment properties and investment properties under development for the year ended 31 December 2017 (see note 14(b)) less the deferred tax credit of HK$187 million due to the reversal of deferred tax liabilities arising mainly from the transfer of subsidiaries which own Beijing Henderson Centre, an investment property in mainland China, during the year ended 31 December 2017.*

	2017 HK$ million	2016 HK$ million
Net deferred tax assets recognised in the consolidated statement of financial position	**(424)**	(377)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**6,607**	6,582
	6,183	6,205

11 Income tax (continued)

(d) Deferred tax assets not recognised:

Deferred tax assets have not been recognised in respect of the following items:

	2017		2016	
	Deductible temporary differences/ unused tax losses HK$ million	**Deferred tax assets not recognised HK$ million**	Deductible temporary differences/ unused tax losses HK$ million	Deferred tax assets not recognised HK$ million
Deductible temporary differences	**4**	**1**	4	1
Future benefits of tax losses				
Hong Kong (note (i))				
– Assessed by the Inland Revenue Department	**2,702**	**446**	3,042	502
– Not yet assessed by the Inland Revenue Department	**7,884**	**1,300**	6,781	1,118
Outside Hong Kong (note (ii))	**318**	**80**	964	241
	10,904	**1,826**	10,787	1,861
	10,908	**1,827**	10,791	1,862

Notes:

(i) These tax losses do not expire under current tax legislation.

(ii) These tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

The Group has not recognised deferred tax assets in respect of deductible temporary differences and unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

12 Dividends

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

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

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

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

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

13 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2017			2016		
	Pre-tax amount HK$ million	**Tax expense HK$ million**	**Net-of-tax amount HK$ million**	Pre-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million
Exchange differences: net movement in the exchange reserve	**3,221**	**–**	**3,221**	(3,577)	–	(3,577)
Cash flow hedges: net movement in the hedging reserve	**187**	**(31)**	**156**	53	(8)	45
Available-for-sale securities: net movement in the fair value reserve	**245**	**–**	**245**	68	–	68
Share of other comprehensive income of associates and joint ventures	**1,577**	**–**	**1,577**	(1,086)	–	(1,086)
Other comprehensive income for the year	**5,230**	**(31)**	**5,199**	(4,542)	(8)	(4,550)
		(note 11(c))			(note 11(c))	

13 Other comprehensive income (continued)

(b) Components of other comprehensive income, including reclassification adjustments

	2017 HK$ million	2016 HK$ million
Exchange differences:		
– translation of financial statements of foreign entities	**3,484**	(3,559)
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries (see note 34)	**(238)**	(18)
– reclassification adjustments for amounts transferred to profit or loss on winding-up of subsidiaries	**(25)**	–
Net movement in the exchange reserve during the year recognised in other comprehensive income	**3,221**	(3,577)
Cash flow hedges:		
– effective portion of changes in fair value of hedging instruments recognised during the year	**332**	536
– reclassification adjustments for amounts transferred to profit or loss	**(145)**	(483)
– net deferred tax charged to other comprehensive income	**(31)**	(8)
Net movement in the hedging reserve during the year recognised in other comprehensive income	**156**	45
Available-for-sale securities:		
– changes in fair value recognised during the year	**500**	49
– reclassification adjustments for amounts transferred to profit or loss on disposal	**(256)**	(2)
– reclassification adjustments for amounts transferred to profit or loss on impairment	**1**	21
Net movement in the fair value reserve during the year recognised in other comprehensive income	**245**	68

13 Other comprehensive income (continued)

(c) For each component of equity

	Attributable to equity shareholders of the Company								
	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total other comprehensive income HK$ million
2016									
Exchange differences:									
– translation of financial statements of foreign entities	–	(3,539)	–	–	–	–	(3,539)	(20)	(3,559)
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries	–	(18)	–	–	–	–	(18)	–	(18)
Cash flow hedges:									
– effective portion of changes in fair value, net of deferred tax	–	–	–	448	–	–	448	–	448
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	(403)	–	–	(403)	–	(403)
Available-for-sale securities:									
– changes in fair value	–	–	49	–	–	–	49	–	49
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	(2)	–	–	–	(2)	–	(2)
– reclassification adjustments for amounts transferred to profit or loss on impairment	–	–	21	–	–	–	21	–	21
Share of other comprehensive income of associates and joint ventures	–	(1,400)	257	54	–	3	(1,086)	–	(1,086)
Other comprehensive income for the year	–	(4,957)	325	99	–	3	(4,530)	(20)	(4,550)
2017									
Exchange differences:									
– translation of financial statements of foreign entities	–	3,472	–	–	–	–	3,472	12	3,484
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries	–	(238)	–	–	–	–	(238)	–	(238)
– reclassification adjustments for amounts transferred to profit or loss on winding-up of subsidiaries	–	(18)	–	–	–	–	(18)	(7)	(25)
Cash flow hedges:									
– effective portion of changes in fair value, net of deferred tax	–	–	–	277	–	–	277	–	277
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	(121)	–	–	(121)	–	(121)
Available-for-sale securities:									
– changes in fair value	–	–	500	–	–	–	500	–	500
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	(256)	–	–	–	(256)	–	(256)
– reclassification adjustments for amounts transferred to profit or loss on impairment	–	–	1	–	–	–	1	–	1
Share of other comprehensive income of associates and joint ventures	–	1,625	(45)	(56)	–	53	1,577	–	1,577
Other comprehensive income for the year	–	4,841	200	100	–	53	5,194	5	5,199

14 Earnings per share

(a) Reported earnings per share

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

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

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

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

14 Earnings per share (continued)

(b) Underlying earnings per share

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

	2017 HK$ million	2016 HK$ million
Profit attributable to equity shareholders of the Company	**30,433**	21,916
Changes in fair value of investment properties and investment properties under development during the year (note 16(a))	**(9,911)**	(7,013)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the year	**238**	445
Share of changes in fair value of investment properties (net of deferred tax) during the year:		
– associates	**(950)**	(867)
– joint ventures	**(2,929)**	(2,436)
Cumulative fair value change of investment properties and investment properties under development disposed of during the year, net of tax (note):		
– subsidiaries	**3,054**	2,257
– associates and joint ventures	**28**	–
Effect of share of non-controlling interests	**(406)**	(133)
Underlying Profit	**19,557**	14,169
Underlying earnings per share, based on the weighted average number of ordinary shares for the year (note 14(a))	**HK$4.89**	HK$3.54*

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

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

15 Segment reporting

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

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

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

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

15 Segment reporting (continued)

(a) Results of reportable segments

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

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

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

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

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

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

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

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

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

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

Notes:

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

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

(iii) *Unallocated head office and corporate expenses, net of HK$1,559 million for the year (2016: HK$456 million) is stated after taking into account the net fair value gain on interest rate swap contracts during the year of HK$21 million (2016: HK$597 million)(see note 7), and the loss of HK$371 million (2016: HK$12 million) arising from the reclassification from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and guaranteed notes and their underlying interest rate swap contracts and cross currency interest rate swap contracts during the year and other reclassification (see note 7). Excluding the aforementioned gains/(losses), the Group's unallocated head office and corporate expenses, net for the year amounted to HK$1,209 million (2016: HK$1,041 million).*

(iv) *Included in the aggregate gain from the sales of property interests is an amount of HK$1,385 million (2016: HK$1,925 million) representing the aggregate amount of the Group's (1) net gain on transfer of subsidiaries holding investment properties of HK$159 million (2016: HK$1,956 million) (see note 7); (2) net gain on disposal of investment properties of HK$1,211 million (2016: net loss of HK$32 million) (see note 7) (before deducting/adding back the amount of net gain/(loss) attributable to non-controlling interests); and (3) attributable share of gain on disposal of investment properties by an associate of HK$15 million (2016: HK$1 million). After deducting the amount of net gain attributable to non-controlling interests of HK$99 million (2016: adding back the amount of net loss attributable to non-controlling interests of HK$14 million), and adding back the Group's attributable share of cumulative fair value gains on the disposal of investment properties up to the time of disposals of HK$2,712 million (2016: HK$1,991 million), an aggregate gain of HK$3,998 million (2016: HK$3,930 million) contributing to the Group's underlying profit from the disposal of investment properties for the year ended 31 December 2017 was recognised.*

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes: (continued)

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

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

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

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

(b) Geographical information

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

	Revenue from external customers		Specified non-current assets	
	For the year ended 31 December		At 31 December	
	2017 HK$ million	2016 HK$ million	**2017 HK$ million**	2016 HK$ million
Hong Kong	**15,760**	16,114	**223,952**	187,715
Mainland China	**8,693**	9,454	**53,442**	38,218
	24,453	25,568	**277,394**	225,933
	(note 5)	(note 5)		

15 Segment reporting (continued)

(c) Other segment information

	Depreciation		(Reversal of impairment loss)/ impairment loss on trade debtors	
	For the year ended 31 December		For the year ended 31 December	
	2017	2016	**2017**	2016
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**7**	11	**–**	–
Property leasing	**4**	6	**2**	(5)
Department store operation	**33**	25	**–**	–
Other businesses	**50**	64	**(4)**	16
	94	106	**(2)**	11
	(note 8(d))	(note 8(d))	**(note 7)**	(note 7)

16 Investment properties and other property, plant and equipment

(a) Reconciliation of carrying amount

	Investment properties HK$ million	Investment properties under development HK$ million	Subtotal HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Others HK$ million	Subtotal HK$ million	Total HK$ million
Cost or valuation:									
At 1 January 2016	117,804	10,793	128,597	838	200	984	1,278	3,300	131,897
Exchange adjustments	(2,009)	(303)	(2,312)	–	(5)	–	(17)	(22)	(2,334)
Additions	2,783	916	3,699	1	–	–	79	80	3,779
Disposals									
– through transfers of subsidiaries (note 34)	(2,376)	–	(2,376)	–	–	–	(4)	(4)	(2,380)
– others	(304)	–	(304)	–	–	–	(46)	(46)	(350)
Written off	–	–	–	–	–	–	(3)	(3)	(3)
Surplus on revaluation	4,836	2,177	7,013	–	–	–	–	–	7,013
Transfer to investment properties under development	–	244	244	(189)	–	(213)	–	(402)	(158)
Transfer from inventories	123	386	509	–	7	–	–	7	516
Transfer to asset of the disposal group classified as held for sale (note 32)	(3,220)	–	(3,220)	–	–	–	–	–	(3,220)
At 31 December 2016	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
Representing:									
Cost	–	–	–	650	202	771	1,287	2,910	2,910
Valuation	117,637	14,213	131,850	–	–	–	–	–	131,850
	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
Accumulated depreciation and impairment losses:									
At 1 January 2016	–	–	–	306	42	201	1,059	1,608	1,608
Exchange adjustments	–	–	–	–	–	–	(16)	(16)	(16)
Charge for the year (note 8(d))	–	–	–	16	4	14	72	106	106
Written back on disposals									
– through transfers of subsidiaries (note 34)	–	–	–	–	–	–	(4)	(4)	(4)
– others	–	–	–	–	–	–	(42)	(42)	(42)
Transfer to investment properties under development	–	–	–	(106)	–	(52)	–	(158)	(158)
Written off	–	–	–	–	–	–	(3)	(3)	(3)
At 31 December 2016	–	–	–	216	46	163	1,066	1,491	1,491
Net book value:									
At 31 December 2016	117,637	14,213	131,850	434	156	608	221	1,419	133,269

16 Investment properties and other property, plant and equipment (continued)

(a) Reconciliation of carrying amount (continued)

	Investment properties HK$ million	Investment properties under development HK$ million	Subtotal HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Others HK$ million	Subtotal HK$ million	Total HK$ million
Cost or valuation:									
At 1 January 2017	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
Exchange adjustments	1,955	47	2,002	–	4	–	10	14	2,016
Additions									
– through acquisition of a subsidiary	–	–	–	–	–	–	1	1	1
– others	759	27,584(*)	28,343	2	1	–	43	46	28,389
Disposals									
– through transfers of subsidiaries (note 34)	(521)	–	(521)	(652)	–	(767)	(50)	(1,469)	(1,990)
– others	(3,055)	–	(3,055)	–	–	–	(105)	(105)	(3,160)
Written off	–	–	–	–	–	(4)	(6)	(10)	(10)
Surplus on revaluation	8,848	1,063	9,911	–	–	–	–	–	9,911
Transfer to investment properties	2,241	(2,241)	–	–	–	–	–	–	–
Transfer from inventories	599	3,544	4,143	–	7	–	–	7	4,150
At 31 December 2017	128,463	44,210	172,673	–	214	–	1,180	1,394	174,067
Representing:									
Cost	–	–	–	–	214	–	1,180	1,394	1,394
Valuation	128,463	44,210	172,673	–	–	–	–	–	172,673
	128,463	44,210	172,673	–	214	–	1,180	1,394	174,067
Accumulated depreciation and impairment losses:									
At 1 January 2017	–	–	–	216	46	163	1,066	1,491	1,491
Exchange adjustments	–	–	–	–	–	–	7	7	7
Charge for the year (note 8(d))	–	–	–	10	4	10	70	94	94
Written back on disposals									
– through transfers of subsidiaries (note 34)	–	–	–	(226)	–	(169)	(47)	(442)	(442)
– others	–	–	–	–	–	–	(97)	(97)	(97)
Acquisition of a subsidiary	–	–	–	–	–	–	1	1	1
Written off	–	–	–	–	–	(4)	(6)	(10)	(10)
At 31 December 2017	–	–	–	–	50	–	994	1,044	1,044
Net book value:									
At 31 December 2017	128,463	44,210	172,673	–	164	–	186	350	173,023

(*) *Including the carrying amount of HK$2,410 million in respect of a land site in mainland China acquired by the Group during the year ended 31 December 2017, but in relation to which certificate of land delivery (土地交接書) was obtained by the Group on 2 February 2018.*

16 Investment properties and other property, plant and equipment (continued)

(b) The analysis of net book value of properties is as follows:

	2017 HK$ million	2016 HK$ million
In Hong Kong		
– under long leases	**18,217**	14,039
– under medium-term leases	**111,810**	86,733
	130,027	100,772
Outside Hong Kong		
– under long leases	**10**	10
– under medium-term leases	**42,800**	32,266
	42,810	32,276
	172,837	133,048

(c) Fair value measurement of investment properties and investment properties under development

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

16 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2017	Fair value measurements at 31 December 2017 categorised into	
		Level 2	**Level 3**
	HK$ million	**HK$ million**	**HK$ million**
Recurring fair value measurement			
Investment properties:			
– In Hong Kong	**98,227**	**–**	**98,227**
– In mainland China	**30,236**	**–**	**30,236**
Investment properties under development:			
– In Hong Kong	**31,709**	**–**	**31,709**
– In mainland China	**12,501**	**8,123**	**4,378**

	Fair value at 31 December 2016	Fair value measurements at 31 December 2016 categorised into	
		Level 2	Level 3
	HK$ million	HK$ million	HK$ million
Recurring fair value measurement			
Investment properties:			
– In Hong Kong	89,986	–	89,986
– In mainland China	27,651	–	27,651
Investment properties under development:			
– In Hong Kong	9,652	–	9,652
– In mainland China	4,561	4,561	–

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (other than the investment properties transferred to the disposal group for the year ended 31 December 2016 (see note 32)). The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.

16 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation process

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

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

Valuation methodologies

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

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

Inputs used in Level 2 fair value measurement

The valuations of investment properties under development in mainland China were determined using direct market comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis based on market data which is publicly available.

Inputs used in Level 3 fair value measurement

Below is a table which presents the significant unobservable inputs:

Completed investment properties

	Range of capitalisation rates		Range of occupancy rates	
	2017	2016	**2017**	2016
	%	%	**%**	%
In Hong Kong				
– Retail	**2.75%-5.5%**	2.75%-5.5%	**38%-100%**	38%-100%
– Office/industrial	**3.0%-4.0%**	3.0%-4.0%	**90%-100%**	84%-99%
– Residential	**2.25%**	2.25%-2.75%	**92%**	92%-100%
In mainland China				
– Retail	**5.5%-8.0%**	5.5%-8.0%	**66%-100%**	33%-100%
– Office	**6.0%-7.5%**	6.5%-7.5%	**50%-98%**	90%-98%

The fair value measurement of completed investment properties is positively correlated to the occupancy rate and negatively correlated to the capitalisation rate.

16 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Investment properties under development

	Estimated project development cost	
	2017 HK$ million	2016 HK$ million
In Hong Kong	**50 – 3,255**	50 – 1,178
In mainland China	**852**	–

The fair value measurement of investment properties under development is negatively correlated to the estimated cost to completion, being determined as the estimated project development cost less the actual amount of project development cost incurred up to the end of the reporting period.

Valuation

As a result, a net fair value gain of HK$9,911 million (2016: HK$7,013 million) and deferred tax charge in respect of the fair value change on investment properties in mainland China of HK$238 million (2016: HK$445 million) have been recognised in the consolidated statement of profit or loss for the year (see note 14(b)).

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

16 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation (continued)

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

	For the year ended 31 December 2017		
	Hong Kong HK$ million	Mainland China HK$ million	Total HK$ million
Fair value gain on investment properties and investment properties under development held by			
– subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 14(b))	**8,775**	**1,136**	**9,911**
Less:			
Deferred tax (note 14(b))	**–**	**(238)**	**(238)**
Non-controlling interests' attributable share of the fair value gain (net of deferred tax)	**(51)**	**–**	**(51)**
(after deducting non-controlling interests' attributable share and deferred tax)	**8,724**	**898**	**9,622**
– associates (Group's attributable share) (note 14(b))	**950**	**–**	**950**
– joint ventures (Group's attributable share) (note 14(b))	**2,890**	**39**	**2,929**
	12,564	**937**	**13,501**

16 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation (continued)

	For the year ended 31 December 2016		
	Hong Kong HK$ million	Mainland China HK$ million	Total HK$ million
Fair value gain on investment properties and investment properties under development held by			
– subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 14(b))	5,169	1,844	7,013
Less:			
Deferred tax (note 14(b))	–	(445)	(445)
Non-controlling interests'attributable share of the fair value gain (net of deferred tax)	(5)	–	(5)
(after deducting non-controlling interests' attributable share and deferred tax)	5,164	1,399	6,563
– associates (Group's attributable share) (note 14(b))	867	–	867
– joint ventures (Group's attributable share) (note 14(b))	2,415	21	2,436
	8,446	1,420	9,866

(d)

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

17 Interest in subsidiaries

Details of the principal subsidiaries at 31 December 2017 which materially affected the results, assets or liabilities of the Group are set out on pages 241 to 247.

18 Interest in associates

	2017 HK$ million	2016 HK$ million
Unlisted		
Share of net assets	**2,842**	2,184
Amounts due from associates	**3,150**	2,094
	5,992	4,278
Listed in Hong Kong		
Share of net assets, including goodwill on acquisition	**53,514**	49,658
	59,506	53,936
Market value of listed shares	**94,765**	77,999

Except for the amounts due from associates of HK$91 million (2016: HK$69 million) which are interest-bearing at Hong Kong dollar prime rate less 3% (2016: Hong Kong dollar prime rate less 3%) per annum, all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered within one year from the end of the reporting period and are neither past due nor impaired.

18 Interest in associates (continued)

All of the associates are accounted for using the equity method in the consolidated financial statements. Details of the principal associates at 31 December 2017 are set out on page 248.

Summarised financial information of the material associate, adjusted for any differences in accounting policies and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	The Hong Kong and China Gas Company Limited (note)	
	2017 HK$ million	2016 HK$ million
Gross amounts of the associate's:		
Current assets	**24,366**	21,420
Non-current assets	**106,799**	95,431
Current liabilities	**(31,948)**	(19,500)
Non-current liabilities	**(28,886)**	(34,363)
Equity	**70,331**	62,988
Revenue	**32,477**	28,557
Profit from continuing operation	**9,347**	8,270
Other comprehensive income	**3,498**	(2,390)
Total comprehensive income	**12,845**	5,880
Dividend received from the associate	**1,912**	1,738
Reconciled to the Group's interest in the associate:		
Gross amount of net assets of the associate	**70,331**	62,988
Carrying amount of perpetual capital securities	**(2,354)**	(2,354)
Non-controlling interests	**(7,453)**	(6,612)
Equity attributable to equity shareholders	**60,524**	54,022
Group's interest	**41.53%**	41.52%
Group's share of the associate's equity attributable to equity shareholders	**25,135**	22,430
Goodwill	**17,519**	17,517
Carrying amount in the consolidated financial statements	**42,654**	39,947
Market value of the listed shares	**88,986**	72,554

Note: The principal activities of The Hong Kong and China Gas Company Limited are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses. Its distinctive business nature forms a supplement to the Group's core business of property development and property investment to smooth out the cyclicality of the Group's property development business.

18 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2017 HK$ million	2016 HK$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**16,852**	13,989
Aggregate amounts of the Group's share of those associates:		
Profit from continuing operation	**1,551**	843
Other comprehensive income	**83**	(28)
Total comprehensive income	**1,634**	815

19 Interest in joint ventures

	2017 HK$ million	2016 HK$ million
Share of net assets	**34,159**	30,489
Less: Impairment loss	**(2)**	–
	34,157	30,489
Amounts due from joint ventures	**10,708**	8,239
	44,865	38,728

The amounts due from joint ventures are unsecured, interest-free, have no fixed terms of repayment and are not expected to be recovered within one year from the end of the reporting period except for the amounts of HK$14 million (2016: HK$17 million) and HK$271 million (2016: HK$358 million) which are interest-bearing at Hong Kong dollar prime rate (2016: Hong Kong dollar prime rate) per annum and Hong Kong Interbank Offered Rate plus 0.5% (2016: Hong Kong Interbank Offered Rate plus 0.5%) per annum respectively, and HK$650 million (2016: HK$650 million) which is secured, interest-bearing at Hong Kong Interbank Offered Rate plus 1.4% (2016: Hong Kong Interbank Offered Rate plus 1.4%) per annum and is wholly repayable on 18 November 2021. The balances are neither past due nor impaired.

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. Details of the principal joint ventures at 31 December 2017 are set out on page 249.

19 Interest in joint ventures (continued)

Summarised financial information of the material joint venture, adjusted for any differences in accounting policies and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Central Waterfront Property Investment Holdings Limited (note)	
	2017 HK$ million	2016 HK$ million
Gross amounts of the joint venture's:		
Current assets	**771**	803
Non-current assets	**103,425**	95,719
Current liabilities	**(2,141)**	(2,020)
Non-current liabilities	**(18,346)**	(18,276)
Equity	**83,709**	76,226
Included in the above assets and liabilities:		
Cash and cash equivalents	**373**	351
Non-current financial liabilities (excluding trade and other payables and provisions)	**(17,382)**	(17,363)
Revenue	**6,175**	5,936
Increase in fair value of investment properties	**7,707**	7,523
Profit from continuing operation	**11,202**	10,837
Other comprehensive income	**(19)**	46
Total comprehensive income	**11,183**	10,883
Dividend received from the joint venture	**1,266**	1,180
Included in the above profit:		
Depreciation and amortisation	**(71)**	(74)
Interest income	**1**	1
Interest expense	**(421)**	(396)
Income tax expense	**(694)**	(651)
Reconciled to the Group's interest in the joint venture:		
Gross amount of net assets of the joint venture	**83,709**	76,226
Group's interest	**34.21%**	34.21%
Group's share of net assets of the joint venture and its carrying amount in the consolidated financial statements	**28,637**	26,077

Note: Central Waterfront Property Investment Holdings Limited was incorporated in the British Virgin Islands by the Group and its joint venture partners and operates in Hong Kong. Its subsidiaries are mainly engaged in property investment and hotel operation in the International Finance Centre complex in Hong Kong.

19 Interest in joint ventures (continued)

Aggregate information of joint ventures that are not individually material:

	2017 HK$ million	2016 HK$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**16,228**	12,651
Aggregate amounts of the Group's share of those joint ventures:		
Profit from continuing operation	**546**	181
Other comprehensive income	**291**	(249)
Total comprehensive income	**837**	(68)

20 Derivative financial instruments

	2017		2016	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Cash flow hedges:				
Cross currency interest rate swap contracts (note 4(f)(i))	**111**	**393**	201	898
Interest rate swap contracts (note 4(f)(i))	**–**	**198**	–	326
Total cash flow hedges	**111**	**591**	201	1,224
Fair value through profit or loss:				
Cross currency interest rate swap contracts (note 4(f)(i))	**–**	**7**	–	–
Interest rate swap contracts (note 4(f)(i))	**–**	**230**	–	–
Other derivatives (note 4(f)(i))	**67**	**–**	164	–
	67	**237**	164	–
	178	**828**	365	1,224
Representing:				
Non-current portion	**111**	**746**	358	906
Current portion (notes 24 and 27)	**67**	**82**	7	318
	178	**828**	365	1,224

20 Derivative financial instruments (continued)

(a) Derivatives under cash flow hedges

Swap contracts which have been entered into with certain counterparty banks comprise:

- cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes (see note 29) denominated in United States dollars, Pound Sterling and Singapore dollars with aggregate principal amounts of US$629 million, £50 million and S$200 million at 31 December 2017 (2016: US$672 million, £50 million and S$200 million and the bank loans denominated in Japanese Yen in the amount of ¥10,000 million but which were fully repaid during the year ended 31 December 2017); and
- interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars with an aggregate principal amount of HK$11,450 million at 31 December 2017 (2016: HK$11,450 million), but of which interest rate swap contracts of an aggregate notional amount of HK$3,850 million were under cash flow hedges at 31 December 2017.

The abovementioned cross currency interest rate swap contracts and interest rate swap contracts will mature between 19 September 2018 and 20 October 2026 (2016: between 28 February 2017 and 20 October 2026).

(b) Derivatives to hedge against foreign currency risk

At 31 December 2017, cross currency interest rate swap contracts have been entered into with a counterparty bank to hedge against the foreign currency risk in respect of the guaranteed notes (see note 29) denominated in Japanese Yen in the principal amount of ¥2,000 million (2016: Nil).

(c) Other derivatives

The carrying value of other derivatives at 31 December 2017 and 2016 represents the fair value of the remaining unexercised bonus warrants of Miramar Hotel and Investment Company, Limited (a listed associate of the Group) at the end of the reporting period. During the year ended 31 December 2017, 24,780,330 of such bonus warrants at aggregate fair value of HK$80 million were exercised by the Group.

21 Other financial assets

	2017 HK$ million	2016 HK$ million
Available-for-sale securities		
Unlisted (note 4(f)(ii))	**28**	378
Listed:		
– in Hong Kong	**2,708**	2,853
– outside Hong Kong	**313**	253
	3,049	3,484
Held-to-maturity debt securities (note 4(f)(ii))		
Listed:		
– in Hong Kong	**242**	554
– outside Hong Kong	**243**	529
	485	1,083
Instalments receivable	**7,846**	6,287
Loans receivable	**557**	–
	11,937	10,854
Market value of listed available-for-sale securities (note 4(f)(i))	**3,021**	3,106
Market value of listed held-to-maturity debt securities (note 4(f)(ii))	**508**	1,136
Fair value of individually impaired available-for-sale securities	**223**	620

(a) Available-for-sale securities

At 31 December 2017, certain of the Group's listed available-for-sale securities were individually determined to be impaired on the basis of significant or prolonged decline in their fair value below cost. Impairment loss on available-for-sale securities is recognised in profit or loss in accordance with the accounting policy set out in note 2(n)(i).

At 31 December 2017, the Group's available-for-sale securities were not pledged to any third parties.

At 31 December 2016, included in the carrying amount of available-for-sale securities was an aggregate amount of HK$65 million being pledged in favour of a financial institution for credit facilities granted to a wholly-owned subsidiary of the Group and which were not utilised.

21 Other financial assets (continued)

(b) Held-to-maturity debt securities

Held-to-maturity debt securities are listed, issued by corporate entities with sound credit standing and were neither past due nor impaired at 31 December 2017 and 2016.

At 31 December 2017, the Group's held-to-maturity debt securities were not pledged to any third parties.

At 31 December 2016, included in the carrying amount of held-to-maturity debt securities was an aggregate amount of HK$346 million being pledged in favour of a financial institution for credit facilities granted to a wholly-owned subsidiary of the Group and which were not utilised.

(c) Instalments receivable

Instalments receivable represents the proceeds receivable from the sale of properties due after one year from the end of the reporting period. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within one year from the end of the reporting period is included in "Trade and other receivables" under current assets (see note 24).

Instalments receivable, which are due within one year (see note 24) and after more than one year from the end of the reporting period, included an amount of HK$6,424 million (2016: HK$4,817 million) representing the aggregate attributable amounts of the outstanding mortgage loans from the Group to the property buyers and which were already drawn down by the property buyers at the end of the reporting period.

(d) Loans receivable

At 31 December 2017, loans receivable included amounts of HK$380 million (2016: Nil) which is secured and interest-bearing at Hong Kong Interbank Offered Rate plus 2.25% per annum, HK$45 million (2016: Nil) which is secured and interest-bearing at 3% per annum and HK$132 million (2016: Nil) which is unsecured and interest-bearing at 5% per annum. The balances were due after one year from the end of the reporting period and were neither past due nor impaired.

The balances of loans receivable which were expected to be recovered within one year from the end of the reporting period have been classified as "Trade and other receivables" under current assets (see note 24).

22 Deposits for acquisition of properties

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

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

23 Inventories

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

The analysis of carrying value of inventories for property development is as follows:

	2017 HK$ million	2016 HK$ million
In Hong Kong		
– under long leases	**30,088**	26,179
– under medium-term leases	**39,269**	35,628
	69,357	61,807
In mainland China		
– under long leases	**2,383**	5,098
– under medium-term leases	**1,781**	8,257
	4,164	13,355
	73,521	75,162
Including:		
– Properties expected to be completed after more than one year	**49,504**	49,667

24 Trade and other receivables

	2017 HK$ million	2016 HK$ million
Instalments receivable (note 21(c))	**2,430**	1,561
Loans receivable (note 21(d))	**866**	293
Debtors, prepayments and deposits	**15,926**	8,686
Gross amount due from customers for contract work (note 25)	**28**	22
Derivative financial instruments (note 20)	**67**	7
Amounts due from associates	**10**	6
Amounts due from joint ventures	**125**	76
	19,452	10,651

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

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

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

24 Trade and other receivables (continued)

(a) Ageing analysis

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

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

Details of the Group's credit policy are set out in note 4(a).

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(n)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2017 HK$ million	2016 HK$ million
At 1 January	**52**	83
Exchange differences	**1**	(2)
(Reversal of impairment loss)/impairment loss recognised (notes 7 and 15(c))	**(2)**	11
Uncollectible amounts written off	**(1)**	(40)
At 31 December	**50**	52

At 31 December 2017, the Group's trade debtors of HK$50 million (2016: HK$52 million) were individually determined to be impaired. The individually impaired receivables relate to customers who were in financial difficulties and management assessed that only a portion of these receivables are expected to be recovered. Accordingly, the Group has recognised impairment losses during the year in relation to the amounts which were considered to be irrecoverable.

24 Trade and other receivables (continued)

(c) 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	**2,307**	1,796
Less than 1 month past due	**226**	630
Over 1 month but less than 3 months past due	**23**	44
	249	674
	2,556	2,470

Receivables which were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables which were past due but not impaired relate to customers who have a good track record of trading with the Group. Based on past experience, management considers that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

25 Gross amount due from/(to) customers for contract work

	2017 HK$ million	2016 HK$ million
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus profits less losses	**289**	162
Progress billings	**(270)**	(142)
Net contract work	**19**	20
Represented by:		
Gross amount due from customers for contract work (note 24)	**28**	22
Gross amount due to customers for contract work (note 27)	**(9)**	(2)
	19	20

26 Cash and bank balances and movements in the carrying amounts of items relating to financing activities

(a) Cash and cash equivalents comprise:

	2017 HK$ million	2016 HK$ million
Deposits with banks and other financial institutions	**14,771**	11,672
Cash at bank and in hand	**9,902**	11,294
Cash and bank balances in the consolidated statement of financial position	**24,673**	22,966
Less:		
Deposits with banks and other financial institutions over three months of maturity at acquisition	**(1,139)**	(7,432)
Cash restricted for use	**(2,670)**	(2,695)
Cash and cash equivalents in the consolidated cash flow statement	**20,864**	12,839

At 31 December 2017, cash and bank balances in the consolidated statement of financial position included balances of bank deposits in mainland China which were subject to exchange controls, and of which an amount of HK$2,670 million (2016: HK$2,695 million) was restricted for use and primarily comprised the guarantee deposits for the construction of certain property development projects under pre-sales in mainland China.

26 Cash and bank balances and movements in the carrying amounts of items relating to financing activities (continued)

(b) Movements in the carrying amounts of items relating to financing activities

	Bank loans HK$ million (note 28)	Guaranteed notes HK$ million (note 29)	Derivative financial instruments (other than other derivatives) HK$ million (note 20)	Amount due to a fellow subsidiary HK$ million (note 30)	Loans from non-controlling interests, other loans, and payables HK$ million	Total HK$ million
At 1 January 2017	42,478	13,606	1,023	316	2,043	59,466
Changes from financing cash flows:						
Repayment to non-controlling interests, net	–	–	–	–	(75)	(75)
Proceeds from new bank loans/guaranteed notes	60,741	1,339	–	–	–	62,080
Repayment of bank loans/guaranteed notes	(34,421)	(5,767)	–	–	–	(40,188)
Increase in amount due to a fellow subsidiary	–	–	–	1,438	–	1,438
Interest and other borrowing costs paid during the year	(700)	(558)	(228)	(9)	(67)	(1,562)
Total changes from financing cash flows	25,620	(4,986)	(228)	1,429	(142)	21,693
Exchange adjustments	312	189	–	–	–	501
Changes in fair value	–	–	(306)	–	–	(306)
Other changes:						
Interest expenses (before capitalisation) for the year (note 8(a))	601	464	233	9	67	1,374
Other borrowing costs (before capitalisation) for the year (note 8(a))	156	4	–	–	–	160
Others	10	96	(5)	–	395	496
Total other changes	767	564	228	9	462	2,030
At 31 December 2017	69,177	9,373	717	1,754	2,363	83,384

27 Trade and other payables

	2017 HK$ million	2016 HK$ million
Creditors and accrued expenses (other than those transferred to the disposal group (see note 32))	**7,606**	7,748
Gross amount due to customers for contract work (note 25)	**9**	2
Rental and other deposits (other than those transferred to the disposal group (see note 32))	**1,542**	1,748
Forward sales deposits received	**9,987**	8,353
Derivative financial instruments (note 20)	**82**	318
Amounts due to associates	**2,878**	401
Amounts due to joint ventures	**1,251**	2,653
	23,355	21,223

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

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

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

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

28 Bank loans

At 31 December 2017, bank loans were repayable as follows:

	2017 **HK$ million**	2016 HK$ million
Within 1 year and included in current liabilities	**23,506**	14,392
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	**15,639**	5,641
– After 2 years but within 5 years	**25,871**	22,445
– After 5 years	**4,161**	–
	45,671	28,086
	69,177	42,478

At 31 December 2017 and 2016, all of the bank loans were unsecured.

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain ratios in the Group's statement of financial position and minimum net assets requirement, as are commonly found in lending arrangements with financial institutions. Any breach of the covenants by the Group would result in the drawdown facilities to become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 4(b). At 31 December 2017 and 2016, none of the covenants relating to the drawdown facilities had been breached.

29 Guaranteed notes

	2017 HK$ million	2016 HK$ million
Guaranteed notes due 2019 – 2022	**1,456**	1,732
Guaranteed notes due 2019	**3,902**	3,870
Guaranteed notes issued pursuant to the Medium Term Note Programme	**4,015**	8,004
	9,373	13,606

At 31 December 2017, the guaranteed notes were repayable as follows:

	2017 HK$ million	2016 HK$ million
Within 1 year and included in current liabilities	**1,169**	5,760
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	**5,202**	1,071
– After 2 years but within 5 years	**1,279**	6,236
– After 5 years	**1,723**	539
	8,204	7,846
	9,373	13,606

(a) Guaranteed notes due 2019 – 2022

On 25 July 2007, the Company through a wholly-owned subsidiary issued guaranteed loan notes (the “2007 Notes”) with aggregate principal amounts of US$325 million and £50 million under private placements in the United States of America and in Europe. At 31 December 2017, the 2007 Notes with principal amounts of US$119 million and £50 million bear fixed interest rates ranging from 6.28% to 6.38% per annum payable semi-annually in arrears (2016: the 2007 Notes with principal amounts of (i) US$152 million and £50 million bore fixed interest rates ranging from 6.18% to 6.38% per annum payable semi-annually in arrears, but of which an amount of US$33 million was repaid during the year; and (ii) US$10 million bore floating rate by reference to 3-month London Interbank Offered Rate payable quarterly in arrears but which was fully repaid during the year). The 2007 Notes are guaranteed by the Company and will mature between 25 July 2019 and 25 July 2022 (2016: 25 July 2017 and 25 July 2022).

(b) Guaranteed notes due 2019

On 17 September 2009, the Company through a wholly-owned subsidiary issued guaranteed notes (the “2009 Notes”) with an aggregate principal amount of US$500 million at an issue price equal to 99.795% of the principal amount of the 2009 Notes. The 2009 Notes bear fixed interest rate at 5.50% per annum payable semi-annually in arrears. The 2009 Notes are guaranteed by the Company and will mature on 17 September 2019.

29 Guaranteed notes (continued)

(c) Guaranteed notes issued pursuant to the Medium Term Note Programme (the "Programme")

The carrying amounts of the guaranteed notes issued under the Programme and which remained outstanding at 31 December 2017 were as follows:

(i) On 19 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of S$200 million. These notes bear fixed coupon rate of 4.00% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 19 September 2018.

(ii) On 23 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$220 million. These notes bear a fixed coupon rate of 4.03% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 23 September 2021.

(iii) On 26 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$656 million. These notes bear a fixed coupon rate of 4.03% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 27 September 2021.

(iv) On 20 October 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US$10 million. These notes bear a fixed coupon rate of 5.20% per annum payable annually in arrears, are guaranteed by the Company and will mature on 20 October 2026.

(v) On 28 October 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$250 million. These notes bear a fixed coupon rate of 4.03% per annum payable annually in arrears, are guaranteed by the Company and will mature on 28 October 2021.

(vi) On 10 November 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$309 million. These notes bear a fixed coupon rate of 4.80% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 10 November 2031.

(vii) On 8 November 2017, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$1,000 million. These notes bear a fixed coupon rate of 3.55% per annum payable annually in arrears, are guaranteed by the Company and will mature on 8 November 2032.

(viii) On 30 November 2017, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$200 million. These notes bear a fixed coupon rate of 3.53% per annum payable annually in arrears, are guaranteed by the Company and will mature on 22 November 2032.

(ix) On 6 December 2017, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of ¥2,000 million. These notes bear a fixed coupon rate of 0.80% per annum payable annually in arrears, are guaranteed by the Company and will mature on 6 December 2032.

30 Amount due to a fellow subsidiary

At 31 December 2017 and 2016, all of the amount due to a fellow subsidiary is unsecured, interest-bearing and is not expected to be settled within one year from the end of the reporting period with no fixed terms of repayment.

31 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances during the year of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out in note 39(b).

(b) Nature and purpose of reserves

(i) Property revaluation reserve

The property revaluation reserve relates to other land and buildings. Where other land and buildings is reclassified to investment properties, the cumulative increase in fair value at the date of reclassification is included in the property revaluation reserve, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(y).

(iii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies set out in notes 2(g) and 2(n)(i).

(iv) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of a derivative financial instrument which is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, in accordance with the accounting policy adopted for cash flow hedges in note 2(i).

(v) Other reserves

Other reserves mainly comprise the statutory reserve set up for enterprises established in mainland China. According to the relevant rules and regulations in The People's Republic of China ("PRC") applicable to wholly foreign-owned enterprises, a wholly foreign-owned enterprise is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprise's registered capital.

32 Disposal group

At 31 December 2016, the Group had agreed to transfer Beijing Henderson Centre (being an investment property in Beijing, mainland China) and presented the disposal group as held for sale as follows:

	2016 HK$ million
Asset	
Investment properties (note 16(a))	3,220
	3,220
Liabilities	
Creditors and accrued expenses	16
Rental and other deposits	16
	32
Net assets classified as held for sale	3,188

33 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 financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to its capital structure in 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 the businesses of property development and property investment. Gearing ratio is calculated based on the net debt (being the aggregate of the Group's bank and other borrowings and the amount due to a fellow subsidiary (collectively, the "Total debt") less cash and bank balances) and shareholders' funds of the Group at the end of the reporting period.

33 Capital management (continued)

During the year ended 31 December 2017, the Group's strategy, which was unchanged from that for the corresponding year ended 31 December 2016, was to secure long-term funding sources at attractive borrowing costs so as to finance the development of the Group's land bank in Hong Kong and mainland China in the coming years. The Group continued to maintain a low gearing ratio during the year, which has the effect of minimising any unfavourable impact on the Group arising from any unforeseeable adverse changes in the local and/or international financial markets, capital markets and economic conditions.

The Group's gearing ratios at 31 December 2017 and 2016 were as follows:

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

Except for a wholly-owned subsidiary of the Company which is engaged in the provision of finance and is governed by the requirements of the Banking Ordinance, neither the Company nor any of its other subsidiaries was subject to externally imposed capital requirements during the year and at 31 December 2017.

34 Transfers of subsidiaries

The Group transferred certain subsidiaries during the year ended 31 December 2017. The transfers which were completed during the year ended 31 December 2017 had the following effect on the Group's assets and liabilities:

	2017 HK$ million	2016 HK$ million
Investment properties and other property, plant and equipment (note 16(a))	**1,548**	2,376
Investment properties (included in asset of the disposal group classified as held for sale as at 31 December 2016)	**3,257**	–
Deposits for acquisition of properties	**3,316**	–
Inventories	**2,646**	851
Trade and other receivables	**546**	4
Cash and cash equivalents	**703**	154
Trade and other payables	**(383)**	(23)
Trade and other payables (included in liabilities associated with asset of the disposal group classified as held for sale as at 31 December 2016)	**(29)**	–
Tax payable	**(2)**	–
Deferred tax liabilities (note 11(c))	**–**	(30)
Net assets	**11,602**	3,332
Non-controlling interests	**(16)**	–
Initial recognition of interest in joint ventures	**–**	(463)
Release of exchange reserve (note 13(b))	**(238)**	(18)
Professional charges	**34**	66
Net gain on transfers (note 7)	**3,837**	1,959
Total consideration	**15,219**	4,876
Net cash inflow in respect of the transfers:		
Total consideration	**15,219**	4,876
Consideration received in advance in prior year	**(330)**	–
Consideration to be received	**(5,025)**	(421)
Cash and cash equivalents transferred	**(703)**	(154)
	9,161	4,301

35 Capital commitments

At 31 December 2017, the Group had capital commitments not provided for in these financial statements as follows:

	2017 HK$ million	2016 HK$ million
(a) Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**13,094**	6,806
Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**14,454**	20,687
	27,548	27,493
(b) **In relation to the capital commitments undertaken by joint ventures and certain associates attributable to the Group:**		
Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**1,825**	1,575
Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**4,397**	547
	6,222	2,122

36 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 a number of land/building facilities under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are re-negotiated. Further details of the carrying value of the properties are contained in note 16.

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

	2017 HK$ million	2016 HK$ million
Within 1 year	**4,972**	4,592
After 1 year but within 5 years	**5,553**	5,090
After 5 years	**214**	291
	10,739	9,973

36 Significant leasing arrangements (continued)

(b) Lessee

The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are re-negotiated.

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

	2017 HK$ million	2016 HK$ million
Within 1 year	**244**	168
After 1 year but within 5 years	**297**	61
	541	229

37 Contingent liabilities

At 31 December 2017, contingent liabilities of the Group were as follows:

(a) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and re-classification of the properties before or upon the Completion. At 31 December 2017, the Group had contingent liabilities in this connection of HK$11 million (2016: HK$13 million).

(b) At 31 December 2017, the Group had contingent liabilities in respect of performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects amounting to HK$1,237 million (2016: HK$40 million).

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

(d) At 31 December 2017, the Company had given an irrevocable, unconditional and several guarantee to the lending bank in relation to the repayment obligations by a joint venture, in which the Group has a 20% interest, which entered into a loan facility agreement with such lending bank on 2 May 2017. The Group's contingent liabilities in respect of the guarantee in relation to the drawdown amount of the loan facility, which is proportional to the Group's attributable interest in the joint venture, amounted to HK$30 million.

38 Material related party transactions

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

(a) Transactions with fellow subsidiaries

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
Other interest expense (note (i))	**9#**	12#
Sales commission income (note (iii))	**8**	8
Administration fee income (note (ii))	**10**	9

(b) Transactions with associates and joint ventures

Details of material related party transactions during the year between the Group and its associates and joint ventures are as follows:

	2017 HK$ million	2016 HK$ million
Purchase of investment properties (note (iii))	**281**	–
Construction income (note (iii))	**194**	–
Rental income (note (iii))	**22**	24
Rental expenses (note (iii))	**150**	133
Venue-related expenses (note (iii))	**54**	49
Management fee income (note (iii))	**2**	4
Security guard service fee income (note (iii))	**25**	26
Other interest income (note (i))	**22**	4
Property management service fee income (note (iii))	**10**	8
Rental commission income (note (iii))	**6**	7
Sales commission income (note (iii))	**–**	3
Loan commitment fee income (note (iii))	**6**	7

38 Material related party transactions (continued)

(c) Transactions with related companies

Details of material related party transactions during the year between the Group and its related companies which are controlled by private family trusts of a director of the Company are as follows:

	2017 HK$ million	2016 HK$ million
Income from sale of construction materials (note (iii))	**4**	6
Rental income (note (iii))	**12**	19
Tax indemnity receipt	**1**	3

Notes:

(i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate, Hong Kong dollar prime rate or Renminbi benchmark loan rates announced by the People's Bank of China.

(ii) This transaction represents cost reimbursements or cost reimbursements plus certain percentage thereon as service fees.

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

(iv) The amount due to a fellow subsidiary at 31 December 2017 and 2016 is referred to in the Group's consolidated statement of financial position at 31 December 2017 and 2016, and the terms of which are set out in note 30. The amounts due from/to associates and joint ventures at 31 December 2017 and 2016 are set out in notes 18, 19, 24 and 27.

(d) Transactions with Sunlight REIT

Details of the material related party transactions during the year between the Group and Sunlight REIT (which is deemed as a connected person of the Company under the Listing Rules as from 30 April 2009) are as follows:

	2017 HK$ million	2016 HK$ million
Property and leasing management service fee income and other ancillary property service fee income	**53#**	49#
Asset management service fee income	**92#**	85#
Rental expenses	**11**	11
Security service fee income	**3#**	3#

The above transactions were conducted in accordance with the terms of the respective agreements/deeds entered into between the Group and Sunlight REIT. At 31 December 2017, the amount due from Sunlight REIT was HK$29 million (2016: HK$30 million) and is unsecured, interest-free and has no fixed terms of repayment. The amount is included in "Trade and other receivables" under current assets (note 24).

38 Material related party transactions (continued)

(e) Transactions with a director of the Company and a company owned by him

(i) On 20 March 2017, Dr Lee Ka Kit, a director of the Company, made an advance (“advance”) of HK$91 million to Henderson (China) Investment Company Limited (“HCI”), an indirect wholly-owned subsidiary of the Group, for the purpose of funding HCI’s business operation in mainland China. The advance is unsecured, interest-free and repayable on the first anniversary following the date on which HCI received the advance.

(ii) Dr Lee Ka Kit, through a company owned by him (the “entity”), has separate interest in an associate of the Group and through which the Group holds its interest in a development project in mainland China. The entity agreed to provide and had provided finance in the form of non interest-bearing advances to such associate in accordance with the percentage of its equity interest in such associate. At 31 December 2017, the advance by the entity to the abovementioned associate amounted to HK$80 million (2016: HK$80 million). Such amount is unsecured and has no fixed terms of repayment.

(f) Transactions with a director of the Company and a company owned by a close family member of a director of the Company

During the year ended 31 December 2017, the Group sold to Professor Ko Ping Keung, a director of the Company, and to a company owned by a close family member of Madam Fung Lee Woon King, a director of the Company, completed property units for considerations of HK$26 million and HK$57 million, respectively.

(g) Key management personnel

Remuneration for key management personnel are disclosed in note 9.

These related party transactions also constitute connected transactions and/or continuing connected transactions under the Listing Rules, details of which are set out in the paragraph headed “Interests in transactions, arrangements or contracts and connected transactions/continuing connected transactions” in the Report of the directors set out in the Company’s annual reports for the years ended 31 December 2017 and 2016.

39 Statement of financial position and changes in equity of the Company

(a) Statement of financial position

	Note	At 31 December 2017 HK$ million	At 31 December 2016 HK$ million
Non-current assets			
Interest in subsidiaries	17	**165,749**	160,429
Interest in associates		**91**	94
Interest in joint ventures		**111**	135
		165,951	160,658
Current assets			
Trade and other receivables		**65**	65
Cash and bank balances		**2**	2
		67	67
Current liability			
Trade and other payables		**19**	18
		19	18
Net current assets		**48**	49
Total assets less current liability		**165,999**	160,707
Non-current liabilities			
Amounts due to subsidiaries		**35,110**	35,770
Amounts due to joint ventures		**100**	146
		35,210	35,916
NET ASSETS		**130,789**	124,791
CAPITAL AND RESERVE	39(b)		
Share capital	39(c)	**52,345**	52,345
Retained profits		**78,444**	72,446
TOTAL EQUITY		**130,789**	124,791

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

Lee Shau Kee
Lee Tat Man
Directors

39 Statement of financial position and changes in equity of the Company (continued)

(b) Movement in equity

	Note	Share capital HK$ million	Retained profits HK$ million	Total HK$ million
Balance at 1 January 2016		52,345	73,025	125,370
Changes in equity for 2016:				
Profit and total comprehensive income for the year		–	4,487	4,487
Bonus shares issued	39(c)	–	–	–
Dividend approved in respect of the previous financial year	12(b)	–	(3,538)	(3,538)
Dividend declared and paid in respect of the current year	12(a)	–	(1,528)	(1,528)
Balances at 31 December 2016 and 1 January 2017		**52,345**	**72,446**	**124,791**
Changes in equity for 2017:				
Profit and total comprehensive income for the year		**–**	**12,029**	**12,029**
Bonus shares issued	39(c)	**–**	**–**	**–**
Dividend approved in respect of the previous financial year	12(b)	**–**	**(4,110)**	**(4,110)**
Dividend declared and paid in respect of the current year	12(a)	**–**	**(1,921)**	**(1,921)**
Balance at 31 December 2017		**52,345**	**78,444**	**130,789**

39 Statement of financial position and changes in equity of the Company (continued)

(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	**3,637**	3,306	**52,345**	52,345
Issue of bonus shares (note (i))	**364**	331	**–**	–
At 31 December	**4,001**	3,637	**52,345**	52,345

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the shares of the Company do not have a par value.

(i) *Issue of bonus shares*

On 21 June 2017, an aggregate of 363,740,571 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 13 June 2017.

On 23 June 2016, an aggregate of 330,673,246 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 13 June 2016.

There is no change to the Company's share capital as the Company's shares no longer have a par or nominal value in accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622).

(d) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves 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$78,444 million (2016: HK$72,446 million). As stated in note 12(a), after the end of the reporting period, the directors proposed a final dividend of HK$1.23 (2016: HK$1.13) per ordinary share, amounting to HK$4,921 million (2016: HK$4,110 million). This dividend has not been recognised as a liability at the end of the reporting period.

40 Non-adjusting events after the reporting period

(a) After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 12.

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

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

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

41 Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.

42 Immediate parent and ultimate controlling party

At 31 December 2017, the directors consider that the immediate parent and ultimate controlling party of the Group to be Henderson Development Limited, which is incorporated in Hong Kong. Henderson Development Limited does not produce financial statements available for public use.

Principal Subsidiaries

at 31 December 2017

Details of the principal subsidiaries are as follows:

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(a)	Property development				
(i)	**Incorporated and operates in Hong Kong**				
	Asia Cheer International Limited		1	–	100
	Borten Limited	(i)	1	–	100
	Capital Matrix Limited		1	–	100
	Carley Limited		2	–	100
	City Castle Limited		1	–	100
	Dynamic Hero Limited	(i)	1	–	100
	Dynamic Talent Limited		1	–	100
	Fairtex Development Limited		1	–	100
	Gainbo Limited	(i)	2	–	100
	Gentway Limited	(i)	1	–	100
	Global Crystal Limited	(i)	1	–	100
	Golden Sharp Limited		1	–	100
	Harven Limited		10,000	–	100
	Harvest Development Limited		840	–	82.86
	Hung Shun Investment Company Limited	(i)	3,940,200	–	100
	Joinbo Enterprises Limited	(i)	1	–	100
	Landrich Development Limited	(i)	1,000	–	100
	Nation Sheen Limited	(i)	2	–	100
	Onfine Development Limited	(i)	2	–	100
	Perfect Success Development Limited		2	–	100
	Rich Silver Development Limited		2	–	100
	Rise Cheer Investment Limited	(i)	1	–	100
	Sky Rainbow Development Limited		10,000	–	100
	Sunny Perfect Limited		1,000	–	100
	Super Fortune Investment Limited	(i)	1	–	100
	Supreme Hero Limited	(i)	1	–	100
	Sure Partner Limited		1	–	100
	Treasure Palace Limited		1	–	100
	Triple Glory Limited	(i)	1	–	100
	Union Citizen Limited	(i)	1	–	100
	Victory Well Development Limited		2	–	100
	Winjoy Development Limited	(i)	2	100	–

		Issued/ contributed registered capital	% of equity interest held by The Company	Subsidiaries	% of profit sharing by subsidiaries
(a)	Property development (continued)				
(ii)	**Established and operates in mainland China**				
	Sino-Foreign Co-operative Joint Venture Enterprise				
	Beijing Gaoyi Property Development Co., Ltd.	US$81,000,000	–	100	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(b)	Property investment				
	Incorporated and operates in Hong Kong				
	Bloomark Investment Limited	(i)	2	–	100
	Carry Express Investment Limited	(i)	100,000	–	100
	Deland Investment Limited	(i)	200	–	100
	Easewin Development Limited	(i)	2	–	100
	Evercot Enterprise Company, Limited	(i)			
	– A Shares		14,990,000	100	–
	– B Shares		200	–	–
	Intelligent House Limited	(i)	2	–	100
	Join Fortune Development Limited	(i)			
	– A Shares		100	100	–
	– B Shares		2	–	–
	Millap Limited	(i)	2	100	–
	Shung King Development Company Limited	(i)			
	– Ordinary A Shares		2	100	–
	– Non-voting Deferred A Shares		2,000,000	100	–
	– B Shares		2	–	–
	Union Fortune Development Limited	(i)	10,000	–	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(c)	**Finance**				
(i)	**Incorporated and operates in Hong Kong**				
	Ever Supreme Development Limited		1	–	100
	Henderson (China) Finance Limited	(i)	10,000	–	100
	Henderson International Finance Limited		25,000,000	100	–
	Henderson Land Credit (2014) Limited	(i)	1	–	100
	Henderson Land Credit (2015) Limited	(i)	1	–	100
	Henderson Land Finance (2011) Limited	(i)	1	–	100
	Henland Finance Limited	(i)	1,000,000	–	100
	Post East Finance Company Limited		2	–	100
	Rich Chase Development Limited	(i)	2	–	100
	Success Crown Development Limited		2	–	100
(ii)	**Incorporated and operates in the British Virgin Islands**				
	Hansom Technology Limited	(i)	US$1	–	100
	Henderson Land Finance Limited		US$1	100	–
	Henderson Land MTN Limited	(i)	US$1	–	100
	Henland Finance (2012) Limited		US$1	–	100
	Henson Finance Limited	(i)	US$1	–	100
	Midlink Limited	(i)	US$1	–	100
	St. Helena Holdings Co. Limited		US$3	–	100
(iii)	**Incorporated in Singapore and operates in Hong Kong**				
	Henderson Land MTN (S) Pte. Limited	(i)	US$1	–	100

Principal Subsidiaries

at 31 December 2017

	Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(d) Construction				
Incorporated and operates in Hong Kong				
E Man Construction Company Limited		35,000,000	100	–
Ginca Construction Machinery Limited		1	–	100
Granbo Construction Company Limited		1	–	100
Heng Lai Construction Company Limited		2	–	100
Heng Shung Construction Company Limited		2	–	100
Heng Tat Construction Company Limited		200	–	100
Hong Kong Concrete Precasting Product Company Limited		2	–	100

	Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(e) Property management				
Incorporated and operates in Hong Kong				
Beverly Hill (Estate Management) Limited		2	–	100
Flora Plaza Management Limited		10	–	60
Goodwill Management Limited		2	–	100
Hang On Estate Management Limited		2	–	100
Hang Yick Properties Management Limited		10,000,000	100	–
Henderson Sunlight Asset Management Limited	(i)	38,800,000	–	100
Henderson Sunlight Property Management Limited	(i)	1	–	100
Metro City Management Limited		2	–	100
Metro Harbourview Management Limited		2	–	100
Star Management Limited		2	–	100
Sunshine City Property Management Limited		2	–	100
Well Born Real Estate Management Limited		2	100	–

	Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(f) Investment holding				
(i) Incorporated and operates in Hong Kong				
Banshing Investment Limited		2	–	100
Channel Best Limited	(i)	1	–	100
China Investment Group Limited		300,000,000	–	100
Citiright Development Limited		2	100	–
Covite Investment Limited		2	–	100
Darnman Investment Limited		2	–	100
Disralei Investment Limited				
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		1,000	–	100
Fondoll Investment Limited		200	100	–
Gainwise Investment Limited		2	–	100
Graf Investment Limited	(i)			
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		200	–	100
Henderson China Properties Limited	(i)	3,000,000,000	–	100
Henderson Investment Limited		612,926,901	–	69.27
Macrostar Investment Limited				
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		2	–	100
Main Champion Development Limited	(i)	2	100	–
Markshing Investment Limited		2	–	100
Medley Investment Limited				
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		200	–	100
Mightymark Investment Limited		2	100	–
Mount Sherpa Limited	(i)			
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		20	–	100
Paillard Investment Limited	(i)			
– Ordinary Shares		2	–	100
– Non-voting Deferred Shares		200	–	100
Tactwin Development Limited	(i)	1,000	100	–
Wellfine Development Limited		55	100	–
Wiselin Investment Limited	(i)	2	–	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(f)	Investment holding (continued)				
(ii)	Incorporated in Hong Kong and operates in mainland China				
	Hang Seng Quarry Company Limited	(i)	10,000	64	–
(iii)	Incorporated and operates in the British Virgin Islands				
	Cobase Limited		US$1	–	100
	Comax Investment Limited		US$1	–	100
	Higgins Holdings Limited		US$1	–	100
	Multiglade Holdings Limited	(i)	US$1	–	100
	Richful Resources Limited		US$1	–	100
	Starland International Limited	(i)	US$1	100	–
	Sunnice Investment Limited		US$1	–	100
	Threadwell Limited	(i)	US$1	–	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(g)	Department store operation and management				
	Incorporated and operates in Hong Kong				
	Citistore (Hong Kong) Limited		1	–	100

Principal Subsidiaries

at 31 December 2017

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(h)	**Hotel operation and management**				
	Incorporated and operates in Hong Kong				
	Henderson Hotel Management Limited	(i)			
	– Ordinary Shares		2	–	100
	– Non-voting Deferred Shares		2	–	100
	Newton Inn (North Point) Limited	(i)	2	100	–
	Newton Place Hotel Limited	(i)	1	–	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(i)	**Management and agency services**				
	Incorporated and operates in Hong Kong				
	Henderson Leasing Agency Limited	(i)	1	–	100
	Henderson Property Agency Limited		200,000	–	100
	Henderson Real Estate Agency Limited	(i)	200	100	–

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(j)	**Professional services and others**				
	Incorporated and operates in Hong Kong				
	Hang Oi Charitable Foundation Limited		–	–	100
	Henderson Warmth Foundation Limited		–	100	–
	Megastrength Security Services Company Limited	(i)			
	– Ordinary Shares		10,000	–	100
	– Non-cumulative Preference Shares		400	–	100

Note:

(i) Companies audited by KPMG.

The above list gives the principal subsidiaries of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

Principal Associates

at 31 December 2017

Details of the principal associates, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by		
	The Company	Subsidiaries	Principal activities
Listed			
Hong Kong Ferry (Holdings) Company Limited	–	33.41	Property development, property investment, ferry, shipyard and related businesses, and securities investment
Miramar Hotel and Investment Company, Limited	–	48.12	Property rental, hotel and service apartments, food and beverage operation and travel operation
The Hong Kong and China Gas Company Limited	–	41.53	Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses
Unlisted			
Star Play Development Limited	–	33.33	Property investment
Start Treasure Limited	–	22.80	Property development
上海旭弘置業有限公司 (established and operates in mainland China)	–	50	Property development and investment
蘇州旭高房地產開發有限公司 (established and operates in mainland China)	–	50	Property development

The above list gives the principal associates of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

Principal Joint Ventures

at 31 December 2017

Details of the principal joint ventures, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by		
	The Company	Subsidiaries	Principal activities
Best Value International Limited	–	50	Property investment and investment holding
Billion Ventures Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	50	Investment holding
Central Waterfront Property Investment Holdings Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	34.21	Investment holding
Double Cove Management Limited	–	50	Provision of property management services
Long Global Investment (Chengdu) Limited (established and operates in mainland China)	–	30	Property development
Newfoundworld Holdings Limited	–	20	Property investment and hotel operation
Special Concept Development Limited	–	25	Property development
Surbana-Henderson (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Surbana-Henderson II (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Teamfield Property Limited	–	49.18	Property development
The Reach Management Limited	–	50	Provision of property management services
上海旭領湖置業有限公司 (established and operates in mainland China)	–	35	Property development

The above list gives the principal joint ventures of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

Corporate Information

Board of Directors

Executive Directors

Dr Lee Shau Kee
(Chairman and Managing Director)
Dr Lee Ka Kit *(Vice Chairman)*
Dr Lam Ko Yin, Colin *(Vice Chairman)*
Lee Ka Shing *(Vice Chairman)*
Yip Ying Chee, John
Suen Kwok Lam
Fung Lee Woon King
Lau Yum Chuen, Eddie
Kwok Ping Ho
Wong Ho Ming, Augustine

Non-executive Directors

Lee Pui Ling, Angelina
Lee Tat Man

Independent Non-executive Directors

Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong
Woo Ka Biu, Jackson
Leung Hay Man
Professor Poon Chung Kwong

Audit Committee

Kwong Che Keung, Gordon*
Professor Ko Ping Keung
Wu King Cheong
Leung Hay Man

Remuneration Committee

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

Nomination Committee

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

Corporate Governance Committee

Kwong Che Keung, Gordon*
Leung Hay Man
Professor Poon Chung Kwong

* *Committee Chairman*

Company Secretary

Liu Cheung Yuen, Timon

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.hld.com
E-Mail : henderson@hld.com

Share Registrar

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited (Stock Code: 12)

Shares are also traded in the United States through an American Depositary Receipt Level 1 Programme
(Ticker Symbol: HLDCY
CUSIP Reference Number: 425166303)

Authorised Representatives

Dr Lam Ko Yin, Colin
Liu Cheung Yuen, Timon

Auditor

KPMG

Solicitors

Woo Kwan Lee & Lo
Lo & Lo

Principal Bankers

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Bank, Ltd.
Oversea-Chinese Banking Corporation Limited

Group Executives

Dr Lee Shau Kee
GBM, DBA (Hon), DSSc (Hon), LLD (Hon)
General Manager

Dr Lee Ka Kit
GBS, JP, DBA (Hon)
Deputy General Manager

Dr Lam Ko Yin, Colin
SBS, FCILT, FHKIoD, DB (Hon)
Deputy General Manager

Lee Ka Shing
JP
Deputy General Manager

Yip Ying Chee, John
LLB, FCIS
Assistant General Manager

Departmental Executives

Group Business Development Department

Yip Ying Chee, John
LLB, FCIS
Executive Director

Project Management (1) Department

Yu Wai Wai
JP, BA (AS), B Arch, FHKIA, HonFHKIPM,
Authorized Person (Architect), Registered Architect (HK)
General Manager

Project Management (2) Department

Kwok Man Cheung, Victor
BA (AS), B Arch (Dist), MSc (Con P Mgt),
EMBA, FHKIA, MAPM, RIBA,
Authorized Person (Architect), Registered Architect (HK),
PRC Class 1 Registered Architect Qualification
General Manager

Siu Sing Yeung, Tony
B. Arch (Hons), HKIA,
Authorized Person (Architect), Registered Architect (HK),
PRC Class 1 Registered Architect Qualification
Senior Deputy General Manager

Property Development Department

Wong Ho Ming, Augustine
JP, MSc, MEcon, FHKIS, MRICS, MCIArb, RPS (GP)
Executive Director

Yu Hon Kwan, Randy
MH, JP
General Manager

Leung Shu Ki, Shuki
BA (Hons), MHKIP, MRTPI,
MCIP, RPP (HK), MCILT, MCIArb, AHKIArb
Senior Deputy General Manager

Property Planning Department

Leung Kam Leung
MSc, PGDMS, FHKIS, FRICS, RPS (GP)
General Manager

Construction Department

Wong Wing Hoo, Billy
BBS, JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE
General Manager

Yiu Chi Kin, Simon
BSc (Bldg), MSc, MCIOB, MRICS, MASI, MHKICM, MHKIE
Deputy General Manager

Engineering Department

Cheng Yuk Lun, Stephen
BSc(Eng), C Eng, MICE, MIStructE, MHKIE, RPE,
Registered Structural Engineer, Registered Geotechnical Engineer,
Authorized Person (List II), PRC Class 1 Registered Structural
Engineer Qualification
Senior General Manager

Building Quality Planning Department

Lam Sik Kong, Eddy
General Manager

Sales Department
Wong Man Wa, Raymond
LLB, PCLL, Solicitor
Senior General Manager

Sales (1) Department
Lam Tat Man, Thomas
MEM(UTS), DMS, EHKIM, MHIREA,
China GBL Manager
General Manager

Sales (2) Department
Hahn Ka Fai, Mark
BSc, MRICS, MHKIS, RPS (GP)
General Manager

China Land Acquisition & Risk Control Department
Choi Ngai Min, Michael
BBS, JP, MBA
In Charge

Portfolio Leasing Department
Lee Pui Man, Margaret
BHum (Hons)
Senior General Manager

Sit Pak Wing
ACIS, FHIREA
General Manager

Property Management Department
Suen Kwok Lam
BBS, JP, MH, FHIREA
Executive Director

Retail and Hotel Management Department
Li Ning
BSc, MBA
General Manager

Comm. & Ind. Properties Department
Dr Wong Kim Wing, Ball
BA (AS), B. Arch, PhD (Finance), FHKIA,
Registered Architect (HK), Authorized Person (List 1, HK)
General Manager

General Manager Department
Ngai Tung Hai, Karsky
FRICS, MHKIS, AACI
Manager

Dr Wong Kim Wing, Ball
BA (AS), B. Arch, PhD (Finance), FHKIA,
Registered Architect (HK), Authorized Person (List 1, HK)
Group Consultant

Finance Department
Fung Hau Chung, Andrew
BBS, JP, BA
Chief Financial Officer

Lau Yum Chuen, Eddie
Executive Director

Kwok Ping Ho
BSc, MSc, Post-Graduate Diploma in Surveying, ACIB
Executive Director

Cashier Department
Fung Lee Woon King
Chief Treasurer

Human Resources Department
Dr Lam Ko Yin, Colin
SBS, FCILT, FHKIoD, DB (Hon)
Executive Director

Wong Ying Kin, Frankie
MSc, MBA, BBA, DMS, MIHRM
General Manager

Company Secretarial Department
Liu Cheung Yuen, Timon
BEc, FCPA, CA (Aust), FCS, FCIS
General Manager

Accounts Department
Wong Wing Kee, Christopher
BSc (Econ), FCA
General Manager

Audit Department
Choi Kam Fai, Thomas
B Comm, CPA(Canada), CMA
General Manager

Information Technology Department
Kum Tak Cheung, Bassanio
General Manager

Corporate Communications Department
Ngan Suet Fong, Bonnie
BBA
General Manager

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 11:30 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 (with no scrip option).

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** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares of the Company to be issued pursuant to this Resolution, and upon the recommendation of the Directors, such number of new shares of the Company (the "Bonus Share(s)") which is equal to one-tenth of the total number of the issued shares in the Company on 11 June 2018 be allotted and issued without consideration to and among the Shareholders of the Company whose names appear on the Register of Members of the Company on 11 June 2018 on the basis of one Bonus Share for every ten shares in the Company held by such Shareholders of the Company on such date, and that the Bonus Shares to be allotted and issued pursuant to this Resolution shall rank pari passu in all respects with the existing issued shares in the Company except that they will not be entitled to participate in any dividend declared or recommended by the Company in respect of the financial year ended 31 December 2017 and that the Directors be and are hereby authorised to deal with any fractions arising from the distribution by the sale of the Bonus Shares representing such fractions and to retain the net proceeds for the benefit of the Company and further that the Directors be and are hereby authorised to do all acts and things as may be necessary and expedient in connection with the issue of the Bonus Shares."

(B) "**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 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."

(C) "**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 (B) 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)."

(D) "**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 (C) 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 (B) 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, Computershare Hong Kong Investor Services Limited (the "Company's Registrar") at 17M Floor, 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 Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 28 May 2018.*

(4) *For the purpose of determining Shareholders who qualify for the proposed final dividend and Bonus Shares, the Register of Members of the Company will be closed from Thursday, 7 June 2018 to Monday, 11 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and Bonus Shares, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 6 June 2018. The proposed final dividend and Bonus Shares will be distributed 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 Lee Shau Kee, Dr Lam Ko Yin, Colin, Mr Yip Ying Chee, John, Mr Woo Ka Biu, Jackson, Mr Leung Hay Man and Professor Poon Chung Kwong (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 Resolutions (A) and (B) (including the relevant explanatory statement) of item no. 5 above is sent to Members for perusal.*

(7) *Concerning Ordinary Resolutions (C) and (D) 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 (C) 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 (B) 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 mandate being sought.*

(8) *If item no. 2 and Ordinary Resolution (A) of item no. 5 above are approved, the final dividend will be paid on Thursday, 21 June 2018 and the share certificates for the Bonus Shares will be despatched to the Shareholders of the Company on the same day.*

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

Financial Calendar

Interim Results	Announced on Tuesday, 22 August 2017	
Final Results	Announced on Wednesday, 21 March 2018	
Annual Report	Posted to Shareholders on Wednesday, 25 April 2018	
Closure of Register of Members	(1)	To be closed from Tuesday, 29 May 2018 to Friday, 1 June 2018 for the purpose of determining Shareholders who are entitled to attend and vote at the Annual General Meeting
	(2)	To be closed from Thursday, 7 June 2018 to Monday, 11 June 2018 for the purpose of determining Shareholders who qualify for the proposed final dividend and Bonus Shares
Annual General Meeting	To be held on Friday, 1 June 2018	
Dividends – Interim	HK$0.48 per share (with no scrip option) – paid on Monday, 18 September 2017	
– Final (Proposed)	HK$1.23 per share (with no scrip option) – payable on Thursday, 21 June 2018	
Issue of Bonus Shares (Proposed)	One bonus share for every ten shares held – Share Certificates to be posted to Shareholders on Thursday, 21 June 2018	

恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED