

5 Financial Statements, Valuation and Other Information

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Directors' Responsibility for the Financial Statements

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

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

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

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 131 to 189, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and financial risk management.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters continued

Valuation of investment properties

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

The Group's investment property portfolio comprises retail, office and residential properties mainly located in Causeway Bay, Hong Kong and is stated at fair value of HK\$69,633 million, accounting for approximately 87% of the Group's total assets as at 31 December 2016 with a change in fair value of HK\$1,187 million recognised in the consolidated income statement for the year then ended.

All of the Group's investment properties are measured using the fair value model based on a valuation performed by an independent qualified professional valuer (the "Valuer"). As disclosed in note 3 of the Notes to the Consolidated Financial Statements section of the consolidated financial statements, in determining the fair values of the Group's investment properties, the Valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates, reversionary income potential and redevelopment potential of the investment properties in determining the fair values. As further disclosed in note 15 of the Notes to the Consolidated Financial Statements section of the consolidated financial statements, the valuation of investment properties under redevelopment of HK\$4,860 million as at 31 December 2016 is based on the redevelopment potential of the properties as if they were completed and are also dependent upon the estimated costs of redevelopment and allowance of profit required for the redevelopment.

Other Information

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

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

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

How our audit addressed the key audit matter

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

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

Responsibilities of Directors and those charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report continued

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 February 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	2016 HK\$ million	2015 HK\$ million
Turnover	4	3,535	3,430
Property expenses		(428)	(414)
Gross profit		3,107	3,016
Investment income	6	50	54
Administrative expenses		(219)	(234)
Finance costs	7	(178)	(204)
Change in fair value of investment properties		(1,187)	695
Share of results of an associate		237	246
Profit before taxation		1,810	3,573
Taxation	8	(463)	(438)
Profit for the year	9	1,347	3,135
Profit for the year attributable to:			
Owners of the Company		1,218	2,903
Non-controlling interests		129	232
		1,347	3,135
Earnings per share (expressed in HK cents)	14		
Basic		116.35	273.17
Diluted		116.33	273.12

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 HK\$ million	2015 HK\$ million
Profit for the year		1,347	3,135
Other comprehensive income	10		
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Fair value change of equity investments		–	36
Gains on revaluation of properties held for own use		18	9
		18	45
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net adjustments to hedging reserve		78	(40)
Share of translation reserve of an associate		(236)	(240)
		(158)	(280)
Other comprehensive expenses for the year (net of tax)		(140)	(235)
Total comprehensive income for the year		1,207	2,900
Total comprehensive income attributable to:			
Owners of the Company		1,078	2,668
Non-controlling interests		129	232
		1,207	2,900

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 HK\$ million	2015 HK\$ million
Non-current assets			
Investment properties	15	69,633	69,810
Property, plant and equipment	16	720	705
Investment in an associate	18	3,497	3,683
Investment in a joint venture	19	145	–
Loan to a joint venture	19	873	–
Term notes	20	733	935
Other financial assets	21	13	7
Other receivables	22	135	227
		75,749	75,367
Current assets			
Loan to a joint venture	19	1,018	–
Accounts and other receivables	22	196	201
Term notes	20	422	415
Other financial assets	21	6	1
Time deposits	23	2,551	2,743
Cash and bank balances	23	79	61
		4,272	3,421
Current liabilities			
Accounts payable and accruals	24	935	470
Rental deposits from tenants		339	296
Amounts due to non-controlling interests	25	327	327
Borrowings	26	1,180	250
Taxation payable		112	120
		2,893	1,463
Net current assets			
Total assets less current liabilities			
		77,128	77,325
Non-current liabilities			
Borrowings	26	5,113	4,609
Other financial liabilities	21	1	71
Rental deposits from tenants		578	594
Deferred taxation	27	751	683
		6,443	5,957
Net assets			
Capital and reserves			
Share capital	28	7,673	7,642
Reserves		59,817	60,530
Equity attributable to owners of the Company			
Non-controlling interests			
		3,195	3,196
Total equity			
		70,685	71,368

The consolidated financial statements on pages 131 to 189 were approved and authorised for issue by the Board of Directors on 22 February 2017 and are signed on its behalf by:

Irene Y.L. LEE
Director

Michael T.H. LEE
Director

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company		
	Share capital HK\$ million	Share options reserve HK\$ million	General reserve HK\$ million
At 1 January 2015	7,640	27	100
Profit for the year	–	–	–
Net losses arising from hedging instruments	–	–	–
Reclassification adjustments for net losses included in profit or loss	–	–	–
Amortisation of forward element excluded from hedge designation	–	–	–
Fair value change of equity investments	–	–	–
Gain on revaluation of properties held for own use	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 27)	–	–	–
Share of translation reserve of an associate	–	–	–
Total comprehensive income (expenses) for the year	–	–	–
Issue of shares under share option schemes	2	(1)	–
Recognition of equity-settled share-based payments	–	8	–
Forfeiture of share options	–	(4)	–
Cancellation upon repurchase of own shares	–	–	–
Transfer to retained profits upon derecognition of equity investments	–	–	–
Dividends paid during the year (note 13)	–	–	–
At 31 December 2015	7,642	30	100
Profit for the year	–	–	–
Net gains arising from hedging instruments	–	–	–
Reclassification adjustments for net gains included in profit or loss	–	–	–
Amortisation of forward element excluded from hedge designation	–	–	–
Gain on revaluation of properties held for own use	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 27)	–	–	–
Share of translation reserve of an associate	–	–	–
Total comprehensive income (expenses) for the year	–	–	–
Issue of shares under share option schemes	31	(7)	–
Recognition of equity-settled share-based payments	–	5	–
Forfeiture of share options	–	(4)	–
Cancellation upon repurchase of own shares	–	–	–
Dividends paid during the year (note 13)	–	–	–
At 31 December 2016	7,673	24	100

Attributable to owners of the Company								
Investments revaluation reserve HK\$ million	Hedging reserve HK\$ million	Properties revaluation reserve HK\$ million	Translation reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Non- controlling interests HK\$ million	Total HK\$ million	
(3)	(26)	344	514	58,444	67,040	3,089	70,129	
-	-	-	-	2,903	2,903	232	3,135	
-	(39)	-	-	-	(39)	-	(39)	
-	(3)	-	-	-	(3)	-	(3)	
-	2	-	-	-	2	-	2	
36	-	-	-	-	36	-	36	
-	-	10	-	-	10	-	10	
-	-	(1)	-	-	(1)	-	(1)	
-	-	-	(240)	-	(240)	-	(240)	
36	(40)	9	(240)	2,903	2,668	232	2,900	
-	-	-	-	-	1	-	1	
-	-	-	-	-	8	-	8	
-	-	-	-	4	-	-	-	
-	-	-	-	(215)	(215)	-	(215)	
(32)	-	-	-	32	-	-	-	
-	-	-	-	(1,330)	(1,330)	(125)	(1,455)	
1	(66)	353	274	59,838	68,172	3,196	71,368	
-	-	-	-	1,218	1,218	129	1,347	
-	77	-	-	-	77	-	77	
-	1	-	-	-	1	-	1	
-	-	-	-	-	-	-	-	
-	-	22	-	-	22	-	22	
-	-	(4)	-	-	(4)	-	(4)	
-	-	-	(236)	-	(236)	-	(236)	
-	78	18	(236)	1,218	1,078	129	1,207	
-	-	-	-	-	24	-	24	
-	-	-	-	-	5	-	5	
-	-	-	-	4	-	-	-	
-	-	-	-	(395)	(395)	-	(395)	
-	-	-	-	(1,394)	(1,394)	(130)	(1,524)	
1	12	371	38	59,271	67,490	3,195	70,685	

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Consolidated Statement of Cash Flows

For the year ended 31 December 2016

Note	2016 HK\$ million	2015 HK\$ million
Operating activities		
Profit before taxation	1,810	3,573
Adjustments for:		
Finance costs	178	204
Change in fair value of investment properties	1,187	(695)
Share of results of an associate	(237)	(246)
Net interest income	(50)	(54)
Depreciation of property, plant and equipment	22	21
Share-based payment expenses	5	8
Operating cash flows before movements in working capital	2,915	2,811
Decrease in accounts and other receivables	42	69
Increase in accounts payable and accruals	342	13
Increase in rental deposits from tenants	27	15
Cash generated from operations	3,326	2,908
Hong Kong Profits Tax paid	(412)	(382)
Hong Kong Profits Tax refunded	5	14
Net cash from operating activities	2,919	2,540
Investing activities		
Interest received	66	86
Dividends received from an associate	187	477
Proceeds upon maturity of principal-protected investments	–	80
Proceeds upon maturity of term notes	414	491
Proceeds upon maturity of time deposits with original maturity over three months	3,478	5,358
Payments in respect of investment properties	(832)	(408)
Purchases of property, plant and equipment	(15)	(6)
Purchases of term notes	(227)	(642)
Advances to a joint venture	(2,036)	–
Additions to time deposits with original maturity over three months	(2,521)	(4,514)
Net cash (used in) from investing activities	(1,486)	922
Financing activities		
Interest paid	(182)	(198)
Payment of other finance costs	(1)	(3)
Medium Term Note Programme expenses	(2)	(2)
Dividends paid	(1,394)	(1,330)
Dividends paid to non-controlling interests of a subsidiary	(130)	(125)
New bank loans	1,680	–
Repayment of bank loans	(250)	(850)
Repayment of fixed rate notes	–	(400)
Redemption of zero coupon notes	–	(332)
Consideration paid for repurchase of shares	(395)	(215)
Proceeds on exercise of share options	24	1
Net cash used in financing activities	(650)	(3,454)
Net increase in cash and cash equivalents	783	8
Cash and cash equivalents at 1 January	584	576
Cash and cash equivalents at 31 December	1,367	584

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Significant Accounting Policies

For the year ended 31 December 2016

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

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules on Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies adopted are as follows:

1. BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

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

2. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

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

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

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

Significant Accounting Policies continued

For the year ended 31 December 2016

2. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE continued

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

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

3. INVESTMENT PROPERTIES

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise. If an investment property becomes an item of property, plant and equipment because its use has changed as evidenced by commencement of owner-occupation, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

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

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

4. PROPERTY, PLANT AND EQUIPMENT

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

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

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

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in properties revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

4. PROPERTY, PLANT AND EQUIPMENT *continued*

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

5. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

6. FINANCIAL INSTRUMENTS

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

Financial assets

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

(a) Classification of financial assets

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

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

All other financial assets are subsequently measured at fair value.

(i) Amortised cost and effective interest method

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

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

Significant Accounting Policies continued

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(a) Classification of financial assets continued

(ii) Financial assets at FVTPL

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

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

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

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

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

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

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

(iii) Financial assets at FVTOCI

On date of initial application of HKFRS 9 or initial recognition of an investment, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term or it is a derivative that is not designated and effective as a hedging instrument.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve.

The Group has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI since the application of HKFRS 9.

(b) Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(b) Impairment of financial assets continued

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

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

(c) Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments

(a) Classification and measurement

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

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

(i) Effective interest method

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

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

(ii) Financial liabilities at FVTPL

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

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

(iii) Financial liabilities at amortised cost

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

Significant Accounting Policies continued

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity instruments continued

(a) Classification and measurement continued

(iv) Equity instruments

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

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

(b) Derecognition of financial liabilities

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

Derivative financial instruments and hedging

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 21 of the Notes to the Consolidated Financial Statements section.

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

Hedge accounting

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

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

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

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

Note 21 of the Notes to the Consolidated Financial Statements sets out details of the fair values of the derivative instruments used for hedging purposes.

(a) Cash flow hedges

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

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

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

6. FINANCIAL INSTRUMENTS continued

Hedge accounting continued

(a) Cash flow hedges continued

When the Group separates the spot element of a forward contract and designates only the change in the fair value of the spot element as hedging instrument, the change in fair value of the spot element that is determined to be an effective hedge is recognised in other comprehensive income in hedging reserve and the ineffective portion is recognised in profit or loss. The amount that has been accumulated in hedging reserve is reclassified to profit or loss as a reclassification adjustment in the same period during which the relevant hedged items affect profit or loss.

If the forward elements of a forward contract have the character of a cost for obtaining protection against a risk over a particular period of time, the change in fair value of the forward element is recognised in other comprehensive income in hedging reserve to the extent it relates to the hedged item. The value of the aligned forward element that exists at the date of designation of the forward contract is amortised from hedging reserve to profit or loss on a rational basis over the period during which the hedge adjustment for the forward contract could affect profit or loss. At the end of reporting period, the amortisation amount is reclassified from hedging reserve to profit or loss as a reclassification adjustment.

(b) Discontinuation of hedges

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

7. REVENUE RECOGNITION

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

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

Management fee income and security service income are recognised when services are rendered.

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

8. LEASES

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

9. FOREIGN CURRENCIES

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

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

Significant Accounting Policies continued

For the year ended 31 December 2016

9. FOREIGN CURRENCIES continued

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

10. BORROWING COSTS

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

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

11. RETIREMENT BENEFIT COSTS

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

12. TAXATION

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

(a) Current tax

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

(b) Deferred tax

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

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

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

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

12. TAXATION continued

(b) Deferred tax continued

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

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

13. EQUITY-SETTLED SHARE-BASED PAYMENTS TRANSACTIONS

Share options granted to employees

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

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

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital (to share premium prior to new CO became effective on 3 March 2014). When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

14. FAIR VALUE MEASUREMENT

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL

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

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

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

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

In the current year, the Group has applied all of the amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the Group’s financial year beginning on 1 January 2016. The adoption of these amendments to HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments ³
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ⁴
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transaction ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 15	Classifications to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKAS 7	Disclosure Initiatives ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2018, except for the 2010 version of HKFRS 9 and the new requirements for hedge accounting issued in 2013, which the Group early adopted.

⁴ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁵ Effective for annual periods beginning on or after a date to be determined.

The Directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and financial position of the Group.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Fair value of investment properties

At the end of the reporting period, the Group's investment properties are stated at fair value of HK\$69,633 million (2015: HK\$69,810 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential and redevelopment potential taking into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Fair value of financial instruments

Financial instruments, such as cross currency swap and foreign exchange derivatives, are carried in the Group's consolidated statement of financial position at fair value, as disclosed in note 21 of the Notes to the Consolidated Financial Statements section. The management of the Group uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates. Most of the financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in the "Financial Risk Management" section.

4. TURNOVER

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

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

5. SEGMENT INFORMATION

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

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

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

Residential segment – leasing of luxury residential properties and related facilities

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

5. SEGMENT INFORMATION continued

Segment turnover and results

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
For the year ended 31 December 2016				
Turnover				
Gross rental income from investment properties	1,829	1,142	244	3,215
Management fee income	140	150	30	320
Segment revenue	1,969	1,292	274	3,535
Property expenses	(227)	(149)	(52)	(428)
Segment profit	1,742	1,143	222	3,107
Investment income				50
Administrative expenses				(219)
Finance costs				(178)
Change in fair value of investment properties				(1,187)
Share of results of an associate				237
Profit before taxation				1,810
For the year ended 31 December 2015				
Turnover				
Gross rental income from investment properties	1,767	1,096	254	3,117
Management fee income	135	147	31	313
Segment revenue	1,902	1,243	285	3,430
Property expenses	(239)	(124)	(51)	(414)
Segment profit	1,663	1,119	234	3,016
Investment income				54
Administrative expenses				(234)
Finance costs				(204)
Change in fair value of investment properties				695
Share of results of an associate				246
Profit before taxation				3,573

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

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

5. SEGMENT INFORMATION continued

Segment assets

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
As at 31 December 2016				
Segment assets	33,089	23,833	7,859	64,781
Investment properties under redevelopment				4,860
Investment in an associate				3,497
Investment in and loan to a joint venture				2,036
Other assets				4,847
Consolidated assets				80,021
As at 31 December 2015				
Segment assets	34,236	23,111	7,834	65,181
Investment properties under redevelopment				4,637
Investment in an associate				3,683
Other assets				5,287
Consolidated assets				78,788

Segment assets represented the investment properties and accounts receivable of each segment without allocation of investment properties under redevelopment, property, plant and equipment, investment in an associate, investment in and loan to a joint venture, term notes, other financial assets, other receivables, time deposits, cash and bank balances. This is the measure reported to the chief operating decision maker of the Group for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profit. No segment liabilities analysis is presented as the Group's management monitors and manages all the liabilities on a group basis.

Other than the investments in associate, which operated in the People's Republic of China (the "PRC") with carrying amounts of HK\$3,497 million (2015: HK\$3,683 million), all the Group's assets are located in Hong Kong.

Other segment information

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
For the year ended 31 December 2016				
Additions to non-current assets	325	95	20	440
Additions to investment properties under redevelopment				570
				1,010
For the year ended 31 December 2015				
Additions to non-current assets	99	57	11	167
Additions to investment properties under redevelopment				213
				380

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

6. INVESTMENT INCOME

The following is an analysis of investment income:

	2016 HK\$ million	2015 HK\$ million
Financial assets measured at amortised cost	49	47
Reclassification of net losses from hedging reserve on financial instruments designated as cash flow hedges	1	9
Amortisation of forward element excluded from hedge designation	–	(2)
	50	54

7. FINANCE COSTS

	2016 HK\$ million	2015 HK\$ million
Finance costs comprise:		
Interest on bank loans	7	9
Interest on fixed rate notes	175	188
Imputed interest on zero coupon notes	–	1
Total interest expenses	182	198
Other finance costs	4	8
Less: amounts capitalised (<i>Note</i>)	(14)	–
	172	206
Net interest receipts on interest rate swaps	–	(8)
Net exchange losses (gains) on borrowings	2	(2)
Reclassification of net gains from hedging reserve on financial instruments designated as cash flow hedges	2	6
Medium Term Note Programme expenses	2	2
	178	204

Note:

Interest expenses have been capitalised to investment properties under re-development at an average interest rate of 2.61% (2015: nil) per annum.

8. TAXATION

	2016 HK\$ million	2015 HK\$ million
Current tax		
Hong Kong profits tax		
– current year	400	382
– (overprovision) underprovision in prior years	(1)	2
	399	384
Deferred tax (<i>note 27</i>)	64	54
	463	438

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

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

	2016 HK\$ million	2015 HK\$ million
Profit before taxation	1,810	3,573
Tax at Hong Kong Profits Tax rate of 16.5 %	298	590
Tax effect of share of results of an associate	(39)	(41)
Tax effect of expenses not deductible for tax purposes	284	100
Tax effect of income not taxable for tax purposes	(89)	(217)
Tax effect of estimated tax losses not recognised	11	10
Reversal of previously recognised taxable temporary differences	–	(3)
Utilisation of estimated tax losses previously not recognised	(1)	(3)
(Overprovision) underprovision in prior years	(1)	2
Taxation for the year	463	438

In addition to the amount charged to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties held for own use has been charged directly to properties valuation reserve (see note 27).

9. PROFIT FOR THE YEAR

	2016 HK\$ million	2015 HK\$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	3	3
Depreciation of property, plant and equipment	22	21
Gross rental income from investment properties including contingent rentals of HK\$46 million (2015: HK\$71 million)	(3,215)	(3,117)
Less:		
– Direct operating expenses arising from properties that generated rental income	410	403
– Direct operating expenses arising from properties that did not generate rental income	18	11
	(2,787)	(2,703)
Staff costs, comprising:		
– Directors' emoluments (<i>note 11</i>)	23	38
– Share-based payments	3	3
– Other staff costs	233	239
	259	280
Share of income tax of an associate (included in share of results of an associate)	101	104

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

10. OTHER COMPREHENSIVE INCOME

	2016 HK\$ million	2015 HK\$ million
Other comprehensive income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Fair value change of equity investments	–	36
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	22	10
Deferred taxation arising on revaluation	(4)	(1)
	18	9
	18	45
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net gains (losses) arising during the year	77	(39)
Reclassification adjustments for net gains (losses) included in profit or loss	1	(3)
	78	(42)
Amortisation of forward element excluded from hedge designation	–	2
	78	(40)
Share of translation reserve of an associate	(236)	(240)
	(158)	(280)
Other comprehensive expenses for the year (net of tax)	(140)	(235)

Tax effect relating to other comprehensive income:

	2016			2015		
	Before-tax amount HK\$ million	Tax expense HK\$ million	Net-of-tax amount HK\$ million	Before-tax amount HK\$ million	Tax expense HK\$ million	Net-of-tax amount HK\$ million
Fair value change of equity investments	–	–	–	36	–	36
Gains on revaluation of properties held for own use	22	(4)	18	10	(1)	9
Net adjustments to hedging reserve	78	–	78	(40)	–	(40)
Share of translation reserve of an associate	(236)	–	(236)	(240)	–	(240)
	(136)	(4)	(140)	(234)	(1)	(235)

11. DIRECTORS' EMOLUMENTS

	2016 HK\$ million	2015 HK\$ million
Directors' fees	2	2
Other emoluments		
Basic salaries, housing and other allowances	8	13
Bonus (<i>Notes d & f</i>)	11	18
Share-based payments	2	5
	23	38

11. DIRECTORS' EMOLUMENTS *continued*

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2016 and 2015, calculated with reference to their employment as Directors of the Company or for provision of other services to the Company and the Group, are set out below:

	Directors' fees HK\$'000 (Note e)	Basic salaries, housing and other allowances HK\$'000 (Note d)	Bonus HK\$'000 (Note d)	Share-based payments HK\$'000 (Note g)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
For the year ended 31 December 2016						
Executive Director (Note a)						
Irene Yun Lien LEE	–	5,083	6,443	2,298	18	13,842
Non-Executive Directors (Note b)						
Hans Michael JEBSEN (Note h)	232	–	–	–	–	232
Siu Chuen LAU (Note i)	93	2,969	7,000	(726)	12	9,348
Anthony Hsien Pin LEE	280	–	–	–	–	280
Chien LEE	260	–	–	–	–	260
Michael Tze Hau LEE	254	–	–	–	–	254
Independent Non-Executive Directors (Note c)						
Nicholas Charles ALLEN (Note j)	132	–	–	–	–	132
Frederick Peter CHURCHOUSE	280	–	–	–	–	280
Philip Yan Hok FAN	385	–	–	–	–	385
Lawrence Juen-Yee LAU (Note k)	227	–	–	–	–	227
Joseph Chung Yin POON (Note l)	359	–	–	–	–	359
	2,502	8,052	13,443	1,572	30	25,599
For the year ended 31 December 2015						
Executive Directors (Note a)						
Irene Yun Lien LEE	–	4,931	6,246	2,471	18	13,666
Siu Chuen LAU	–	5,340	6,500	2,372	18	14,230
Wendy Wen Yee YUNG (Note m)	–	2,451	1,392	(342)	229	3,730
Non-Executive Directors (Note b)						
Hans Michael JEBSEN	200	–	–	–	–	200
Anthony Hsien Pin LEE	260	–	–	–	–	260
Chien LEE	240	–	–	–	–	240
Michael Tze Hau LEE	240	–	–	–	–	240
Independent Non-Executive Directors (Note c)						
Nicholas Charles ALLEN	360	–	–	–	–	360
Frederick Peter CHURCHOUSE	260	–	–	–	–	260
Philip Yan Hok FAN	360	–	–	–	–	360
Lawrence Juen-Yee LAU	200	–	–	–	–	200
Joseph Chung Yin POON	260	–	–	–	–	260
	2,380	12,722	14,138	4,501	265	34,006

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

11. DIRECTORS' EMOLUMENTS continued

Notes:

- (a) The Executive Directors' emoluments shown above were mainly for the services in connection with the management of the affairs of the Company and the Group.
- (b) The Non-Executive Directors' emoluments shown above were mainly for the services as directors of the Company.
- (c) The Independent Non-Executive Directors' emoluments shown above were mainly for the services as directors of the Company.
- (d) Year 2016:

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

The annual cash compensations of Irene Yun Lien LEE, Chairman, and Siu Chuen LAU, then Deputy Chairman and Chief Executive Officer, were revised to HK\$10,257,000 and HK\$11,107,980 respectively, based on market benchmark, and the jobholder's experience, qualification, and performance. Annual base salaries of Irene Yun Lien LEE and Siu Chuen LAU revised to HK\$5,128,500 and HK\$5,553,990 (making up 50% of the total package instead of 60% as in 2015) respectively.

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

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

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

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2016 is set out below:

	Board HK\$'000	Audit Committee HK\$'000	Remuneration Committee HK\$'000	Strategy Committee HK\$'000	Nomination Committee HK\$'000	2016 Total HK\$'000	2015 Total HK\$'000
Executive Director							
Irene Yun Lien LEE	–	–	–	–	–	–	–
Non-Executive Directors							
Hans Michael JEBSEN (Note h)	214	–	–	18	–	232	200
Siu Chuen LAU (Note i)	93	–	–	–	–	93	–
Anthony Hsien Pin LEE	214	66	–	–	–	280	260
Chien LEE	214	–	–	26	20	260	240
Michael Tze Hau LEE	214	–	40	–	–	254	240
Independent Non-Executive Directors							
Nicholas Charles ALLEN (Note j)	73	44	–	8	7	132	360
Frederick Peter CHURCHOUSE	214	66	–	–	–	280	260
Philip Yan Hok FAN	214	65	60	26	20	385	360
Lawrence Juen-Yee LAU (Note k)	214	–	–	–	13	227	200
Joseph Chung Yin POON (Note l)	214	85	40	–	20	359	260
	1,878	326	140	78	80	2,502	2,380

- (f) Year 2015:

The Remuneration Committee met in March 2015 to approve the 2015 annual fixed base salary and determine the 2014 performance-based bonus of the Company's Executive Directors. Annual fixed base salary of all Executive Directors remained the same for 2015.

The stated bonus figures of HK\$14,138,000 reflected the 2014 performance-based bonus approved by the Committee and paid to Executive Directors in March 2015. For the year ended 31 December 2015, the bonus figures of HK\$18,353,000 represented the 2015 target bonus figures of HK\$12,700,000 pending finalised by the Committee after year-end in March 2016, and included adjustments for 2014 bonus accrued in 2014 (following finalisation of bonus by the Committee in March 2015).

- (g) Share-based payments are the fair values of share options granted to Executive Directors, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive Directors exercise the share options or not during the year. Details of the share option schemes are set out in note 34 of the Notes to the Consolidated Financial Statements section.
- (h) Hans Michael JEBSEN was appointed a member of the Strategy Committee with effect from the conclusion of the 2016 AGM.
- (i) Siu Chuen LAU stepped down as Deputy Chairman and Chief Executive Officer. He was re-designated as Non-Executive Director and ceased to be a member of the Strategy Committee with effect from the conclusion of the August 2016 Board Meeting. He will receive from the Company a fee of HK\$225,000 per annum for being a Non-Executive Director of the Company calculated on pro-rata basis.

11. DIRECTORS' EMOLUMENTS *continued*

Notes: continued

- (j) Nicholas Charles ALLEN retired as Independent Non-Executive Director, the chairman of the Audit Committee, a member of the Nomination Committee and a member of the Strategy Committee with effect from the conclusion of the 2016 AGM.
- (k) Lawrence Juen-Yee LAU was appointed a member of the Nomination Committee with effect from the conclusion of the 2016 AGM.
- (l) Joseph Chung Yin POON was appointed the chairman of the Audit Committee with effect from the conclusion of the 2016 AGM.
- (m) Wendy Wen Yee YUNG resigned as Executive Director and Company Secretary with effect from 24 October 2015.

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

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

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

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2015: two) were Directors of the Company, details of whose emoluments are included in note 11 of the Notes to the Consolidated Financial Statements section. The emoluments of all of the five individuals with the highest emoluments for the years ended 31 December 2016 and 2015 were as follows:

	2016 HK\$ million	2015 HK\$ million
Basic salaries, housing and other allowances	17	19
Bonus	16	15
Share-based payments (<i>Note</i>)	2	6
	35	40

Note:

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

Their emoluments are within the following bands:

	Number of individuals	
	2016	2015
HK\$3,500,001 to HK\$4,000,000	1	2
HK\$4,000,001 to HK\$4,500,000	2	1
HK\$9,000,001 to HK\$9,500,000	1	–
HK\$13,500,001 to HK\$14,000,000	1	1
HK\$14,000,001 to HK\$14,500,000	–	1
	5	5

Senior management (for the purpose of the Listing Rules) during the year are Executive Directors and other members of senior management of the Group. Their emoluments are within the following bands.

	Number of individuals	
	2016	2015
HK\$nil to HK\$1,000,000	1	–
HK\$2,000,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$4,000,000	2	3
HK\$4,000,001 to HK\$5,000,000	2	1
HK\$9,000,001 to HK\$10,000,000	1	–
HK\$13,000,001 to HK\$14,000,000	1	1
HK\$14,000,001 to HK\$15,000,000	–	1
	7	7

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

13. DIVIDENDS

(a) Dividends recognised as distribution during the year:

	2016 HK\$ million	2015 HK\$ million
2016 first interim dividend paid – HK26 cents per share	272	–
2015 first interim dividend paid – HK25 cents per share	–	266
2015 second interim dividend paid – HK107 cents per share	1,122	–
2014 second interim dividend paid – HK100 cents per share	–	1,064
	1,394	1,330

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

	2016 HK\$ million	2015 HK\$ million
Second interim dividend (in lieu of a final dividend) – HK109 cents per share (2015: HK107 cents per share)	1,139	1,122

The second interim dividend is not recognised as a liability as at 31 December 2016 because it has been declared after the end of the reporting period. Such dividend will be accounted for as an appropriation of the retained profits in the year ending 31 December 2017.

The declared second interim dividend will be payable in cash.

14. EARNINGS PER SHARE

(a) Basic and diluted earnings per share

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

	Earnings	
	2016 HK\$ million	2015 HK\$ million
Earnings for the purposes of basic and diluted earnings per share: Profit for the year attributable to owners of the Company	1,218	2,903
	Number of shares	
	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,046,870,824	1,062,690,556
Effect of dilutive potential ordinary shares: Share options issued by the Company	170,710	216,828
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,047,041,534	1,062,907,384

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

14. EARNINGS PER SHARE continued

(b) Adjusted basic earnings per share

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

	2016		2015	
	Profit HK\$ million	Basic earnings per share HK cents	Profit HK\$ million	Basic earnings per share HK cents
Profit for the year attributable to owners of the Company	1,218	116.35	2,903	273.17
Change in fair value of investment properties	1,187	113.39	(695)	(65.40)
Effect of non-controlling interests' shares	(30)	(2.87)	79	7.43
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(6)	(0.58)	(4)	(0.37)
Underlying Profit	2,369	226.29	2,283	214.83
Recurring Underlying Profit	2,369	226.29	2,283	214.83

Notes:

- (1) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature (such as gains or losses on disposal of long-term assets). As there were no such adjustments in both years, the Recurring Underlying Profit is the same as the Underlying Profit.
- (2) The denominators used in calculating the adjusted earnings per share are the same as those detailed above for basic earnings per share.

15. INVESTMENT PROPERTIES

	2016 HK\$ million	2015 HK\$ million
Fair Value		
At 1 January	69,810	68,735
Additions	1,010	380
Change in fair value recognised in profit or loss – unrealised	(1,187)	695
At 31 December	69,633	69,810

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

15. INVESTMENT PROPERTIES continued

Fair value measurements and valuation processes

The fair value of the Group's investment properties at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's investment properties have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the investment properties, the management of the Group has considered the highest and best use of the investment properties.

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

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

There has been no change to the valuation technique during the year for completed properties and investment properties under redevelopment.

All of the fair value measurements of the Group's investment properties were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out in note 4 of the Financial Risk Management section.

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

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

Fair value measurements using significant unobservable inputs (Level 3)

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Investment properties under redevelopment HK\$ million	Total HK\$ million
At 1 January 2015	34,209	22,684	7,822	4,020	68,735
Additions	99	57	11	213	380
Change in fair value recognised in profit or loss – unrealised	(78)	369	–	404	695
At 31 December 2015	34,230	23,110	7,833	4,637	69,810
Additions	325	95	20	570	1,010
Change in fair value recognised in profit or loss – unrealised	(1,473)	627	6	(347)	(1,187)
At 31 December 2016	33,082	23,832	7,859	4,860	69,633

15. INVESTMENT PROPERTIES *continued*

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

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

Description	Fair value as at 31 December		Valuation techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
	2016 HK\$ million	2015 HK\$ million				
Retail	33,082	34,230	Income capitalisation approach	(i) Capitalisation rate	5.00 % – 5.25 % (2015: 5.00 % – 5.25 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$143 per square foot (2015: HK\$145 per square foot)	The higher the market rent, the higher the fair value.
Office	23,832	23,110	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.00 % (2015: 4.25 % – 5.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$50 per square foot (2015: HK\$48 per square foot)	The higher the market rent, the higher the fair value.
Residential	7,859	7,833	Income capitalisation approach	(i) Capitalisation rate	3.75 % (2015: 3.75 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$35 per square foot (2015: HK\$35 per square foot)	The higher the market rent, the higher the fair value.
Investment properties under redevelopment	4,860	4,637	Residual method	(i) Capitalisation rate	4.25 % – 5.00 % (2015: 4.25 % – 5.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$76 per square foot (2015: HK\$80 per square foot)	The higher the market rent, the higher the fair value.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK\$ million (Note)	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
COST OR VALUATION					
At 1 January 2015	662	110	47	2	821
Additions	–	4	2	–	6
Disposals	–	(1)	–	–	(1)
Surplus on revaluation	4	–	–	–	4
At 31 December 2015	666	113	49	2	830
Additions	–	4	11	–	15
Disposals	–	(1)	–	–	(1)
Surplus on revaluation	16	–	–	–	16
At 31 December 2016	682	116	60	2	860
Comprising:					
At cost	–	116	60	2	178
At valuation 2016	682	–	–	–	682
	682	116	60	2	860
ACCUMULATED DEPRECIATION					
At 1 January 2015	–	74	36	1	111
Provided for the year	6	11	4	–	21
Eliminated on disposals	–	(1)	–	–	(1)
Eliminated on revaluation	(6)	–	–	–	(6)
At 31 December 2015	–	84	40	1	125
Provided for the year	6	12	4	–	22
Eliminated on disposals	–	(1)	–	–	(1)
Eliminated on revaluation	(6)	–	–	–	(6)
At 31 December 2016	–	95	44	1	140
CARRYING AMOUNTS					
At 31 December 2016	682	21	16	1	720
At 31 December 2015	666	29	9	1	705

16. PROPERTY, PLANT AND EQUIPMENT *continued*

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

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

Note:

Fair value measurements and valuation processes

The fair value of the Group's leasehold land and buildings in Hong Kong at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's leasehold land and buildings in Hong Kong have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the properties, the management of the Group has considered the highest and best use of the properties. The value was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential. There has been no change to the valuation technique during the year.

All of the fair value measurements of the Group's leasehold land and buildings in Hong Kong were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out in note 4 of the Financial Risk Management section.

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

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

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

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

Description	Fair value as at 31 December		Valuation techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
	2016 HK\$ million	2015 HK\$ million				
Leasehold land and buildings in Hong Kong	682	666	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.25 % (2015: 4.25 % – 5.25 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$58 per square foot (2015: HK\$57 per square foot)	The higher the market rent, the higher the fair value.

The gains of HK\$22 million (2015: HK\$10 million) arising on revaluation have been recognised in other comprehensive income and accumulated in properties revaluation reserve.

Had the Group's land and buildings been measured on a historical cost basis, their carrying amounts would have been HK\$249 million (2015: HK\$255 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$33 million (2015: HK\$30 million) and accumulated depreciation of HK\$27 million (2015: HK\$25 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$2 million (2015: HK\$2 million).

Notes to the Consolidated Financial Statements continued

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17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the principal subsidiaries of the Company at 31 December 2016 and 2015:

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

Note:

The company was incorporated during the year ended 31 December 2016.

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets or liabilities or otherwise are operating subsidiaries of the Group. Other than fixed rate notes issued by Hysan (MTN) Limited (“Hysan MTN”) as disclosed in note 26 of the Notes to the Consolidated Financial Statements section, none of the subsidiaries had issued any debt securities at the end of the reporting period.

17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *continued*

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

Barrowgate Limited

	2016 HK\$ million	2015 HK\$ million
Current assets	714	258
Non-current assets	10,123	10,236
Current liabilities	(1,418)	(1,067)
Non-current liabilities	(187)	(199)
Equity attributable to owners of the Company	6,034	6,032
Non-controlling interests	3,198	3,196
Turnover	645	611
Profit and total comprehensive income for the year	379	671
Profit and total comprehensive income attributable to owner of the Company	248	439
Profit and total comprehensive income attributable to the non-controlling interests	131	232
Dividends paid to non-controlling interests	130	125
Net cash inflows from operating activities	823	438
Net cash outflows from investing activities	(9)	(13)
Cash outflows from financing activities	(375)	(360)
Net cash inflows	439	65

18. INVESTMENTS IN AN ASSOCIATE

	2016 HK\$ million	2015 HK\$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,495	3,681
	3,497	3,683

Details of the Group's associate at 31 December 2016 and 2015 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
Country Link Enterprises Limited (<i>Note 1</i>)	Private limited company	Hong Kong	Ordinary share of HK\$5,000,000	26.3%	Investment holding
Shanghai Kong Hui Property Development Co., Ltd (<i>Note 1</i>)	Sino-Foreign equity joint venture	The PRC	US\$165,000,000 [#]	24.7%	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd (<i>Note 1</i>)	Sino-Foreign equity joint venture	The PRC	US\$140,000 [#]	23.7%	Property management

[#] Fully paid-up registered capital

Notes:

- (1) Shanghai Kong Hui Property Development Co., Ltd and Shanghai Grand Gateway Plaza Property Management Co., Ltd are non-wholly owned subsidiaries of Country Link Enterprises Limited, together known as "Country Link".
- (2) Wingrove Investment Pte Ltd, which was an immaterial associate of the Group, dissolved during the year of 2016.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

18. INVESTMENTS IN AN ASSOCIATE continued

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

Country Link

	2016 HK\$ million	2015 HK\$ million
Current assets	2,241	2,300
Non-current assets	16,556	17,604
Current liabilities	(1,052)	(1,229)
Non-current liabilities	(3,613)	(3,794)
Turnover	1,571	1,627
Profit for the year	967	1,001
Other comprehensive expenses for the year	(954)	(972)
Total comprehensive income for the year	13	29
Group's share of results of an associate for the year	237	246
Group's share of other comprehensive income of an associate for the year	(236)	(240)

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

	2016 HK\$ million	2015 HK\$ million
Net assets of the associate	14,132	14,881
Non-controlling interests of the associate	(829)	(871)
Net assets of the associate after deducting non-controlling interests of the associate	13,303	14,010
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	3,500	3,686
Others	(3)	(3)
Carrying amount of the Group's interest in the associate	3,497	3,683

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

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

	2016 HK\$ million
Investment in a joint venture	
Unlisted shares, at cost	–
Deemed capital contribution in a joint venture (<i>Note 1</i>)	145
	145
Loan to a joint venture classified as:	
Current assets	1,018
Non-current assets (<i>Note 2</i>)	873
	1,891

Notes:

- The deemed capital contribution in a joint venture represents the fair value adjustments in relation to the loan to a joint venture at initial recognition based on the estimated timing on future cash flows.
- The loan to a joint venture of the Group is unsecured, interest-free and has no fixed repayment terms. The Directors of the Company are of the opinion that the Group will not demand repayment from the joint venture for part of the loan with carrying amount of HK\$873 million within the next twelve months from the end of the reporting period and such portion of the loan is therefore classified as non-current assets. The effective interest rate for imputed interest income is determined based on the cost of fund of the borrower per annum.

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

Name of joint venture	Place of incorporation and operation	Class of share held	Effective ownership interest and voting rights held by the Group	Principal activities
Strongbod Limited (<i>Note 1</i>)	British Virgin Islands	Ordinary shares of US\$10	60% (<i>Note 2</i>)	Investment holding
Gainwick Limited (<i>Note 1</i>)	Hong Kong	Ordinary share of HK\$1	60% (<i>Note 2</i>)	Property development and investment

Notes:

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

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

Strongbod

	2016 HK\$ million
Non-current assets	3,393
Current liabilities	1,696
Non-current liabilities	1,697

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

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

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

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

20. TERM NOTES

	2016 HK\$ million	2015 HK\$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	817	729
– Debt securities listed in overseas	187	313
– Unlisted debt securities	151	308
Total	1,155	1,350
Analysed for reporting purposes as:		
Current assets	422	415
Non-current assets	733	935
	1,155	1,350

As at 31 December 2016, the effective yield of the debt securities ranged from 1.81% to 3.27% (2015: 1.36% to 3.27%) per annum, payable quarterly, semi-annually or annually, and the securities will mature from January 2017 to July 2019 (2015: from February 2016 to August 2018). At the end of the reporting period, none of these assets were past due but not impaired.

21. OTHER FINANCIAL ASSETS/LIABILITIES

	Current		Non-current	
	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million
Other financial assets				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	6	1	1	6
– Cross currency swap	–	–	11	–
	6	1	12	6
Financial assets measured at FVTPL:				
Club debenture	–	–	1	1
Total	6	1	13	7
Other financial liabilities				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	–	–	1	–
– Cross currency swap	–	–	–	71
Total	–	–	1	71

21. OTHER FINANCIAL ASSETS/LIABILITIES *continued*

(a) Cash flow hedges

(i) Foreign currency risk

During the year, the Group used forward foreign exchange contracts and cross currency swap to manage its foreign currency exposure. The principal terms of the forward foreign exchange contracts and cross currency swap have been negotiated to match the major terms of the respective designated hedged items and the management considers that the hedges are highly effective.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these outstanding forward foreign exchange contracts and cross currency swap at the end of the reporting period are as follows:

Hedging instruments

	2016					2015				
	Average exchange rate*	Foreign currency	Notional amount million	Fair value HK\$ million	Fair value HK\$ million	Average exchange rate*	Foreign currency	Notional amount million	Fair value HK\$ million	Fair value HK\$ million
Forward foreign exchange contracts										
Sell US dollars ("USD") <i>(Note a)</i>										
Within 1 year	7.7704	USD	28	221	–	7.7609	USD	48	369	1
More than 1 year but not exceeding 5 years	7.8011	USD	70	547	–	7.7657	USD	45	353	2
	7.7922	USD	98	768	–	7.7633	USD	93	722	3
Sell Renminbi ("RMB") <i>(Note b)</i>										
Within 1 year	1.2185	RMB	55	67	6	1.1660	RMB	83	97	–
More than 1 year but not exceeding 5 years	–	–	–	–	–	1.2185	RMB	55	67	4
	1.2185	RMB	55	67	6	1.1869	RMB	138	164	4
Cross currency swap										
Hedging interest and principal of USD fixed rate notes <i>(Note c)</i>										
More than 5 years	7.7519	USD	300	2,326	11	7.7519	USD	300	2,326	(71)
Total				3,161	17				3,212	(64)

* Average exchange rate represented the average exchange rate of HKD versus respective currencies weighted by the notional amounts of the contracts or the swap.

Notes:

- The Group used HK\$768 million (2015: HK\$722 million) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes denominated in USD at their respective maturity dates.
- The Group used HK\$67 million (2015: HK\$164 million) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes and time deposits denominated in RMB at their respective maturity dates. The forward element of forward contracts has been excluded from the cash flow hedge.
- The Group used HK\$2,326 million (2015: HK\$2,326 million) cross currency swap to convert USD interest and principal of US\$300 million (2015: US\$300 million) fixed rate notes into HKD.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

21. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges continued

(i) Foreign currency risk continued

Hedged items

	Carrying amount of the hedged item				Cash flow hedge reserves	
	Assets		Liabilities		2016 HK\$ million	2015 HK\$ million
	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million		
USD term notes	764	721	–	–	1	2
RMB term notes & time deposits	61	163	–	–	1	2
USD fixed rate notes	–	–	2,317	2,314	10	(70)

The hedging ineffectiveness for the years ended 31 December 2016 and 2015 was insignificant.

	Change in the value of the hedging instrument recognised in other comprehensive income		Amount reclassified from the cash flow hedge reserve to profit or loss		Line item affected in profit or loss because of the reclassification
	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million	
	Forward foreign exchange contracts	(1)	5	(1)	
Cross currency swap	78	(44)	2	5	Finance costs

The forward element of forward contracts has been excluded from the cash flow hedge. For the year ended 31 December 2015, the Group amortised HK\$2 million of forward premium to profit or loss against investment income.

The fair values of forward foreign exchange contracts and cross currency swap are measured using quoted forward exchange rates and yield curves from quoted interest rates matching maturities of the contracts and swap.

(b) Financial assets measured at FVTPL

Club debenture

Other financial assets of the Group represented investment in unlisted club debenture. The Group's investment in unlisted club debenture has been classified as financial assets measured at FVTPL.

22. ACCOUNTS AND OTHER RECEIVABLES

	2016 HK\$ million	2015 HK\$ million
Accounts receivable	8	8
Interest receivable	50	59
Prepayments in respect of investment properties	76	121
Other receivables and prepayments	197	240
Total	331	428
Analysed for reporting purposes as:		
Current assets	196	201
Non-current assets	135	227
	331	428

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK\$8 million (2015: HK\$8 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

At the end of the reporting period, none of the accounts receivable were past due but not impaired.

23. TIME DEPOSITS/CASH AND BANK BALANCES

	2016 HK\$ million	2015 HK\$ million
Time deposits	2,551	2,743
Cash and bank balances	79	61
Cash and deposits with banks shown in the consolidated statement of financial position	2,630	2,804
Less: Time deposits with original maturity over three months	(1,263)	(2,220)
Cash and cash equivalents shown in the consolidated statement of cash flows	1,367	584

Time deposits, cash and bank balances include bank deposits carrying effective interest rates ranging from 0.15 % to 1.78 % (2015: 0.20 % to 4.25 %) per annum.

24. ACCOUNTS PAYABLE AND ACCRUALS

	2016 HK\$ million	2015 HK\$ million
Accounts payable	149	146
Interest payable	75	73
Other payables	450	251
Compensation received in advance (<i>Note</i>)	261	–
	935	470

Note:

The amount represents a one-off early surrender compensation received from a tenant which will be recognised as compensation income upon the date of fulfilment of all conditions set out in the surrender agreement.

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$103 million (2015: HK\$99 million) were aged less than 90 days.

25. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests are unsecured, interest-free and repayable on demand.

26. BORROWINGS

The analysis of the carrying amounts of borrowings is as follows:

	Current		Non-current	
	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million
Unsecured bank loans	1,180	250	500	–
Fixed rate notes	–	–	4,613	4,609
	1,180	250	5,113	4,609

In the current year, the average cost of finance of the Group's total borrowings calculated based on their contracted interest rates was 3.7 % (2015: 3.6 %). To manage the foreign exchange risks, the Group used certain derivative to hedge part of the borrowings, which resulted in the Group's average cost of finance to be 3.8 % (2015: 3.5 %). As at 31 December 2016, the floating rate debt ratio relative to gross total debt after considering the hedges was 26.6 % (2015: 5.1 %).

Notes to the Consolidated Financial Statements continued

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26. BORROWINGS continued

(a) Unsecured bank loans

The unsecured bank loans of HK\$1,680 million (2015: HK\$250 million) are guaranteed as to principal and interest by the Company and are repayable, based on the scheduled repayment dates set out in the respective loan agreement, as follows:

	2016 HK\$ million	2015 HK\$ million
Within 1 year	1,180	250
More than 2 years, but not exceeding 3 years	500	–
	1,680	250

All the Group's unsecured bank loans are variable-rate borrowings with effective interest rates (which were also equal to contracted interest rates) at 1.44% (2015: 1.03%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to three months.

(b) Fixed rate notes

	2016 HK\$ million	2015 HK\$ million
Fixed rate notes	4,613	4,609

Details of the Group's fixed rate notes as at 31 December 2016 and 2015 are as follows:

Principal amount	Contracted interest rate per annum	Coupon payment term	Issue date	Maturity date
HK\$165 million	5.38%	annual basis	September 2008	September 2020
HK\$400 million	3.78%	quarterly basis	August 2010	August 2020
HK\$200 million	4.00%	annual basis	September 2010	September 2025
HK\$200 million	3.70%	quarterly basis	October 2010	October 2022
HK\$150 million	3.86%	quarterly basis	May 2011	May 2018
HK\$404 million	4.10%	annual basis	December 2011	December 2023
HK\$331 million	4.00%	quarterly basis	January 2012	January 2022
HK\$300 million	3.90%	quarterly basis	March 2012	March 2019
HK\$150 million	4.50%	annual basis	March 2012	March 2027
US\$300 million	3.50%	semi-annual basis	January 2013	January 2023

All the fixed rate notes were issued by Hysan MTN, a wholly-owned subsidiary of the Company. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate.

As detailed in note 21 of the Notes to the Consolidated Financial Statements section, during the years ended 31 December 2016 and 2015, cross currency swap was used to hedge or manage the foreign exchange rate risks of the Group's US\$ fixed rate notes.

27. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$ million	Revaluation of properties HK\$ million	Total HK\$ million
At 1 January 2015	560	68	628
Charge to profit or loss (note 8)	54	–	54
Charge to other comprehensive income	–	1	1
At 31 December 2015	614	69	683
Charge to profit or loss (note 8)	64	–	64
Charge to other comprehensive income	–	4	4
At 31 December 2016	678	73	751

27. DEFERRED TAXATION *continued*

At the end of the reporting period, the Group has unused estimated tax losses of HK\$767 million (2015: HK\$708 million), of which HK\$422 million (2015: HK\$358 million) has not been agreed by the Hong Kong Inland Revenue Department, available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses of HK\$767 million (2015: HK\$708 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

28. SHARE CAPITAL

	Number of shares	Share capital HK\$ million
Ordinary shares, issued and fully paid:		
At 1 January 2015	1,063,871,692	7,640
Issue of shares under share option scheme	56,000	2
Cancellation upon repurchase of own shares (<i>Note</i>)	(6,750,000)	–
At 31 December 2015	1,057,177,692	7,642
Issue of shares under share option scheme	744,667	31
Cancellation upon repurchase of own shares (<i>Note</i>)	(12,594,000)	–
At 31 December 2016	1,045,328,359	7,673

Note:

The Company was authorised at its AGMs to repurchase its own ordinary shares not exceeding 10% of the total number of its issued shares as at the dates of the resolutions being passed. During the years, the Company repurchased its ordinary shares on the Stock Exchange when they were trading at a significant discount to the Company's net asset value in order to enhance shareholder value.

During the years of 2016 and 2015, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2016	Number of shares repurchased	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
January	8,560,000	31.85	28.95	263
February	325,000	30.60	29.75	10
March	299,000	32.50	32.05	10
April	304,000	31.70	31.30	9
May	2,180,000	33.60	31.60	71
June	65,000	33.20	32.45	2
November	861,000	34.90	33.55	30
	12,594,000			395

Month of repurchase in 2015	Number of shares repurchased	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
August	1,820,000	31.70	30.30	57
September	1,255,000	31.85	30.70	40
November	221,000	32.50	31.80	7
December	3,454,000	32.70	31.45	111
	6,750,000			215

The above ordinary shares were cancelled upon repurchase. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during both years.

Notes to the Consolidated Financial Statements continued

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29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 HK\$ million	2015 HK\$ million
Non-current assets		
Property, plant and equipment	3	6
Investments in subsidiaries	1,307	1,441
Other financial assets	1	1
Amounts due from subsidiaries	3,815	3,785
	5,126	5,233
Current assets		
Other receivables	4	5
Amounts due from subsidiaries	10,026	9,265
Cash and bank balances	2	2
	10,032	9,272
Current liabilities		
Other payables and accruals	38	55
Amounts due to subsidiaries	2,228	1,397
Taxation payable	1	–
	2,267	1,452
Net current assets	7,765	7,820
Net assets	12,891	13,053
Capital and reserves		
Share capital (<i>note 28</i>)	7,673	7,642
Reserves	5,218	5,411
Total equity	12,891	13,053

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 22 February 2017 and are signed on its behalf by:

Irene Y.L. LEE
Director

Michael T.H. LEE
Director

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *continued*

Movement in the Company's reserve

	Share options reserve HK\$ million	General reserve HK\$ million (Note)	Retained profits HK\$ million	Total HK\$ million
At 1 January 2015	27	100	5,286	5,413
Issue of shares under share option schemes	(1)	–	–	(1)
Recognition of equity-settled share-based payments	8	–	–	8
Forfeiture of share option	(4)	–	4	–
Cancellation upon repurchase of own shares	–	–	(215)	(215)
Profit and total comprehensive income for the year	–	–	1,536	1,536
Dividends paid during the year (note 13)	–	–	(1,330)	(1,330)
At 31 December 2015	30	100	5,281	5,411
Issue of shares under share option schemes	(7)	–	–	(7)
Recognition of equity-settled share-based payments	5	–	–	5
Forfeiture of share option	(4)	–	4	–
Cancellation upon repurchase of own shares	–	–	(395)	(395)
Profit and total comprehensive income for the year	–	–	1,598	1,598
Dividends paid during the year (note 13)	–	–	(1,394)	(1,394)
At 31 December 2016	24	100	5,094	5,218

Note: General reserve was set up from the transfer of retained profits.

The Company's reserves available for distribution to its owners as at 31 December 2016 amounted to HK\$5,194 million (2015: HK\$5,381 million), being its general reserve and retained profits at that date.

30. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced Mandatory Provident Fund Scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$4 million (2015: HK\$7 million).

31. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments in respect of its investment properties and property, plant and equipment:

	2016 HK\$ million	2015 HK\$ million
Contracted but not provided for	1,276	396

Notes to the Consolidated Financial Statements continued

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32. LEASE COMMITMENTS

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2016 HK\$ million	2015 HK\$ million
Within one year	2,916	2,721
In the second to fifth year inclusive	4,572	5,024
Over five years	334	812
	7,822	8,557

Operating lease payments represent rentals receivable by the Group from leasing of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of one to three years. Certain leases include contingent rentals calculated with reference to turnover of the tenants.

At the end of the reporting period, the Group as lessee had no commitment under non-cancellable operating lease.

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions and balances with related parties

The Group has the following transactions with related parties during the year and has the following balances with them at the end of the reporting period:

	Gross rental income received from		Amount due to non-controlling interests	
	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million
Related company controlled by a shareholder (<i>Note a</i>)	3	3	–	–
Related companies controlled by Directors (<i>Note b (i) & (ii)</i>)	36	33	94	94
Non-controlling shareholder of a subsidiary (<i>Note c (i) & (ii)</i>)	28	30	233	233
Director (<i>Note d</i>)	1	1	–	–

Notes:

- (a) The sum of transactions represents the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of LHE. LHE holds 41.43% (2015: 40.97%) beneficial interest and has significant influence over the Company.
- (b) (i) The sum of transactions represents the aggregate gross rental income received from related companies where the directors have controlling interests over these related companies.
(ii) The balance represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate by Mightyhall Limited, a wholly-owned subsidiary of Jebsen and Company, of which Hans Michael JEBSEN is a director and a controlling shareholder, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (c) (i) The transaction represents the gross rental income received from Hang Seng Bank Limited, the intermediate holding company of Imenson Limited ("Imenson"). Imenson is a non-controlling shareholder with significant influence over Barrowgate.
(ii) The balance represents outstanding loan advanced to Barrowgate by Imenson, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (d) The transaction represents the gross rental income received from a director of the Company.

33. RELATED PARTY TRANSACTIONS AND BALANCES *continued*

(b) Compensation of key management personnel

The remuneration of Directors and other members of senior management of the Group are as follows:

	2016 HK\$ million	2015 HK\$ million
Directors' fees, salaries and other short-term employee benefits	39	42
Share-based payments	3	6
Retirement benefits scheme contributions	–	–
	42	48

The remuneration of the Directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

34. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The 2005 Scheme

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme.

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

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

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

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

The New Scheme

The Company adopted the New Scheme at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

The purpose of the New Scheme is to provide an incentive for employees of the Company and its subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

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

34. SHARE-BASED PAYMENT TRANSACTIONS continued

(a) Equity-settled share option scheme continued

The New Scheme continued

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

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

During the year, a total of 1,397,000 (2015: nil) share options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

(b) Grant and vesting structures

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

34. SHARE-BASED PAYMENT TRANSACTIONS *continued*

(c) Movement of share options

The following table discloses movements of the Company's share options held by the Directors and eligible employees during the current year:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	Changes during the year			Balance as at 31.12.2016
					Granted	Exercised	Cancelled/ lapsed (Note b)	
2005 Scheme								
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	(174,000) (Note c)	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Siu Chuen LAU (Note d)	14.5.2012	33.50	14.5.2013 – 13.5.2022	161,334	–	(161,334) (Note c)	–	–
	7.3.2013	39.92	7.3.2014 – 6.3.2023	246,000	–	–	(246,000)	–
	10.3.2014	32.84	10.3.2015 – 9.3.2024	302,000	–	(201,333) (Note e)	(100,667)	–
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	(300,000)	–
Eligible employees (Note f)								
	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	(6,000) (Note g)	–	11,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	134,000	–	(6,000) (Note g)	–	128,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	152,334	–	(26,000) (Note h)	–	126,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	172,001	–	(40,667) (Note i)	(6,334)	125,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	250,335	–	(76,334) (Note j)	(14,000)	160,001
	28.3.2013	39.20	28.3.2014 – 27.3.2023	288,000	–	–	(12,000)	276,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	396,000	–	(36,666) (Note k)	(21,334)	338,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	404,000	–	(16,333) (Note l)	(28,667)	359,000
				3,974,004	–	(744,667)	(729,002)	2,500,335

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

34. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	Changes during the year			Balance as at 31.12.2016
					Granted	Exercised	Cancelled/ lapsed (Note b)	
New Scheme								
Executive Directors								
Irene Yun Lien LEE	9.3.2016	33.15 (Note m)	9.3.2017 – 8.3.2026	–	375,000	–	–	375,000
Siu Chuen LAU (Note d)	9.3.2016	33.15 (Note m)	9.3.2017 – 8.3.2026	–	375,000	–	(375,000)	–
Eligible employees (Note f)	31.3.2016	33.05 (Note n)	31.3.2017 – 30.3.2026	–	647,000	–	(37,000)	610,000
					– 1,397,000	–	(412,000)	985,000

Exercisable at the end of the year

1,826,654

Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon re-designation of an executive director and resignations of certain eligible employees.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.35.
- Siu Chuen LAU stepped down as Deputy Chairman and Chief Executive Officer and was re-designated as Non-Executive Director with effect from the conclusion of the August 2016 Board Meeting. All the options granted to Siu Chuen LAU have been lapsed at the date following the re-designation.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.30.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.25.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.27.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.95.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.88.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.78.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.84.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 8 March 2016) was HK\$33.70.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2016) was HK\$32.85.

Apart from the above, the Company had not granted any share option under the 2005 Scheme and the New Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules in 2016.

34. SHARE-BASED PAYMENT TRANSACTIONS *continued*

(c) Movement of share options *continued*

The following table discloses movements of the Company's share options held by the Directors and eligible employees in prior year:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2015	Changes during the year			Balance as at 31.12.2015
					Granted	Exercised	Cancelled/lapsed (Note b)	
2005 Scheme								
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	300,000	–	–	300,000
Siu Chuen LAU	14.5.2012	33.50	14.5.2013 – 13.5.2022	161,334	–	–	–	161,334
	7.3.2013	39.92	7.3.2014 – 6.3.2023	246,000	–	–	–	246,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	302,000	–	–	–	302,000
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	300,000	–	–	300,000
Wendy Wen Yee YUNG (Note d)	10.3.2011	35.71	10.3.2012 – 9.3.2021	103,000	–	–	(103,000)	–
	9.3.2012	33.79	9.3.2013 – 8.3.2022	113,000	–	–	(113,000)	–
	7.3.2013	39.92	7.3.2014 – 6.3.2023	106,700	–	–	(106,700)	–
	10.3.2014	32.84	10.3.2015 – 9.3.2024	95,000	–	(31,000) (Note e)	(64,000)	–
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	49,500	–	(49,500)	–
Eligible employees (Note f)								
	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	–	–	17,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	134,000	–	–	–	134,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	154,334	–	(2,000) (Note g)	–	152,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	181,001	–	(9,000) (Note h)	–	172,001
	30.3.2012	31.61	30.3.2013 – 29.3.2022	262,335	–	(12,000) (Note i)	–	250,335
	28.3.2013	39.20	28.3.2014 – 27.3.2023	298,000	–	–	(10,000)	288,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	411,000	–	(2,000) (Note j)	(13,000)	396,000
	31.3.2015	34.00 (Note k)	31.3.2016 – 30.3.2025	–	417,000	–	(13,000)	404,000
				3,435,704	1,066,500	(56,000)	(472,200)	3,974,004

Exercisable at the end of the year

2,021,658

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

34. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- (b) The options lapsed during the year upon resignations of an executive director and certain eligible employees.
- (c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 11 March 2015) was HK\$36.15.
- (d) Wendy Wen Yee YUNG resigned as Executive Director and Company Secretary effective 24 October 2015.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.60.
- (f) Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.65.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.13.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.50.
- (j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.55.
- (k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2015) was HK\$33.65.

Apart from the above, the Company had not granted any share option under the 2005 Scheme and the New Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules in 2015.

(d) Fair values of share options

The Group has applied HKFRS 2 “Share-based Payments” to account for its share options granted after 7 November 2002 and vested after 1 January 2005. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group’s share options reserve. In the current year, the Group recognised the share option expenses of HK\$5 million (2015: HK\$8 million) in relation to share options granted by the Company, of which HK\$2 million (2015: HK\$5 million) related to the Directors (see note 11), with a corresponding adjustment recognised in the Group’s share options reserve.

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

The inputs into the Model were as follows:

Date of grant	31.3.2016	9.3.2016	31.3.2015	12.3.2015
Closing share price at the date of grant	HK\$33.050	HK\$33.150	HK\$34.000	HK\$34.800
Exercise price	HK\$33.050	HK\$33.150	HK\$34.000	HK\$36.270
Risk free rate (Note a)	0.931%	1.019%	1.096%	1.241%
Expected life of option (Note b)	5 years	5 years	5 years	5 years
Expected volatility (Note c)	27.323%	27.339%	29.947%	29.810%
Expected dividend per annum (Note d)	HK\$1.092	HK\$1.092	HK\$0.976	HK\$0.976
Estimated fair values per share option	HK\$6.127	HK\$6.190	HK\$7.304	HK\$7.061

Notes:

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

Financial Risk Management

For the year ended 31 December 2016

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loan to a joint venture, cash and bank balances, time deposits, term notes, accounts receivable, other receivables, accounts payable, accruals, amounts due to non-controlling interests, borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective Notes to the Consolidated Financial Statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The credit risk of the Group is primarily attributable to loan to a joint venture, rents receivable from tenants, derivative financial instruments, term notes, time deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

For rents receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

For derivative financial instruments, term notes, time deposits and bank balances, the Group only deals with financial institutions and invest in debt securities issued by issuers that have strong credit ratings to mitigate counterparty risk. In order to limit exposure to each financial institution and debt securities issuer, an exposure limit was set with each counterparty according to their credit rating with regular review by management.

Credit exposure to financial institutions and debt securities issuers are monitored and reported regularly to the management. The exposure to each counterparty comprised (i) investment value of financial assets (including time deposits and term notes); (ii) net positive value of derivative financial instruments and; (iii) potential exposures to derivatives which are based on the remaining term and the notional amount of the derivative financial instruments. The table below provides a high level summary of the Group's exposure to each counterparty at the end of the reporting period.

Category of counterparty	2016		2015	
	Number of counterparty	Exposure HK\$ million	Number of counterparty	Exposure HK\$ million
Credit rating of AA- or above or note issuing banks	4	19 to 631	5	16 to 611
Credit rating BBB- to A+	22	9 to 677	22	15 to 472

To minimise the credit risk of loan to a joint venture, the management reviews the recoverable amount of each individual balance at the end of the reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

Financial Risk Management continued

For the year ended 31 December 2016

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk

The Group closely monitors their liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group for their non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars (“HKD”), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
As at 31 December 2016						
Non-derivative financial liabilities						
Accounts payable and accruals	(935)	(935)	(935)	–	–	–
Rental deposits from tenants	(917)	(917)	(339)	(288)	(274)	(16)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans <i>(Note)</i>	(1,680)	(1,707)	(1,192)	(9)	(506)	–
Fixed rate notes <i>(Note)</i>	(4,613)	(5,659)	(175)	(322)	(1,312)	(3,850)
	(8,472)	(9,545)	(2,968)	(619)	(2,092)	(3,866)
As at 31 December 2015						
Non-derivative financial liabilities						
Accounts payable and accruals	(470)	(470)	(470)	–	–	–
Rental deposits from tenants	(890)	(890)	(296)	(293)	(284)	(17)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans <i>(Note)</i>	(250)	(251)	(251)	–	–	–
Fixed rate notes <i>(Note)</i>	(4,609)	(5,833)	(175)	(175)	(1,501)	(3,982)
	(6,546)	(7,771)	(1,519)	(468)	(1,785)	(3,999)

Note:

These amounts also represent the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amounts if these amounts are claimed by the counterparties to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is not likely that amount will be payable under the arrangement.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(b) Liquidity risk *continued*

The following table details the Group's remaining contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than HKD, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
As at 31 December 2016						
Derivative settled gross						
Forward foreign exchange contracts	6					
Outflow		(824)	(281)	(326)	(217)	–
Inflow		834	288	328	218	–
Cross currency swap	11					
Outflow		(2,857)	(85)	(85)	(255)	(2,432)
Inflow		2,855	81	81	244	2,449
As at 31 December 2015						
Derivative settled gross						
Forward foreign exchange contracts	7					
Outflow		(884)	(466)	(169)	(249)	–
Inflow		886	466	171	249	–
Cross currency swap	(71)					
Outflow		(2,942)	(85)	(85)	(255)	(2,517)
Inflow		2,935	81	81	244	2,529

(c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range.

As at 31 December 2016, about 26.6% (2015: 5.1%) of the Group's gross debts was effectively on a floating rate basis. The ratio could be adjusted according to views about changes in the interest rate trend going forward. In addition, the Group is exposed to cash flow interest rate risk as the interest income derived from time deposits and bank balances is subject to interest rate changes. Other than the concentration of interest rate risk related to the movements in Hong Kong Interbank Offered Rate, the Group has no significant concentration of interest rate risk.

Financial Risk Management continued

For the year ended 31 December 2016

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(c) Interest rate risk continued

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and all other variables were held constant. Such change has been applied to non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -25 basis points (“bps”) (2015: +100 and -25 bps) was applied to the HKD and US dollars (“USD”) yield curves at the end of the reporting period. For the RMB yield curve, a change of +125 and -125 bps (2015: +125 and -125 bps) was applied. The applied change of bps represented management’s assessment of the reasonably possible change in interest rates based on the current market conditions.

In management’s opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	bps increase HK\$ million	bps decrease HK\$ million	bps increase HK\$ million	bps decrease HK\$ million
As at 31 December 2016	14	(4)	(7)	2
As at 31 December 2015	26	(7)	4	(1)

(d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements for debt management. To cover foreign exchange exposures arising from debts, the Group’s foreign currency denominated monetary liabilities must be hedged back to HKD unless the liabilities are naturally hedged by the underlying asset in the same foreign currency. In managing the Group’s monetary assets, the Group limits the aggregate net foreign currency exposures to a certain threshold. Exposures exceeding that threshold will be hedged back to HKD. The majority of the Group’s assets are located and all rental income are derived in Hong Kong, and denominated in HKD. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in Renminbi (“RMB”) and USD. The Group’s fixed rate notes are hedged by cross currency swap. During the year ended 31 December 2016, forward contracts were entered to hedge all of the RMB exposure in view of depreciation of RMB against HKD.

	2016			2015		
	RMB million	US\$ million	Total equivalent to HK\$ million	RMB million	US\$ million	Total equivalent to HK\$ million
Assets						
Cash	–	1	3	–	1	3
Time deposits	–	53	409	80	15	213
Term notes	55	126	1,036	55	144	1,181
	55	180	1,448	135	160	1,397
Liabilities						
Fixed rate notes	–	300	2,317	–	300	2,314

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(d) Currency risk continued

At the end of the reporting period, all of the Group's assets and liabilities were denominated in HKD.

Other than concentration of currency risk of the above items denominated in RMB and USD, the Group has no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 21 of the Notes to the Consolidated Financial Statements section, to hedge against part of the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and all other variable were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. Change of 1,000 percentage in points ("pips") (2015: 1,000 pips) and 500 pips (2015: 500) were applied to the HKD:RMB and HKD:USD spot and forward rates respectively at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the currency risk as the year end exposure does not reflect the exposure during the year.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	pips increase HK\$ million	pips decrease HK\$ million	pips increase HK\$ million	pips decrease HK\$ million
As at 31 December 2016				
– USD	4	(4)	1	(1)
As at 31 December 2015				
– USD	3	(3)	2	(2)

2. CATEGORIES OF FINANCIAL INSTRUMENTS

	2016 HK\$ million	2015 HK\$ million
Financial assets		
Fair value through profit or loss ("FVTPL")		
– financial assets measured at FVTPL	1	1
Derivative instruments under hedge accounting	18	7
Amortised cost (including cash and cash equivalents)	5,737	4,222
	5,756	4,230
Financial liabilities		
Derivative instruments under hedge accounting	1	71
Amortised cost	7,555	5,656
	7,556	5,727

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements (“ISDA Agreements”) signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts. Other than derivatives transactions mentioned above, the Group has no other financial assets and financial liabilities which are offset in the Group’s consolidated statement of financial statements or are subject to similar netting arrangements.

(a) Financial assets subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial assets HK\$ million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK\$ million	Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million
As at 31 December 2016			
Derivatives under hedge accounting	18	–	18
As at 31 December 2015			
Derivatives under hedge accounting	7	–	7

(b) Net financial assets subject to enforceable master netting arrangements or similar agreements, by counterparty

	Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million	Financial liabilities not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
As at 31 December 2016			
Counterparty A	11	–	11
Counterparty B	7	–	7
Total	18	–	18
As at 31 December 2015			
Counterparty B	4	–	4
Counterparty C	1	–	1
Counterparty D	2	–	2
Total	7	–	7

(c) Financial liabilities subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial liabilities HK\$ million	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$ million	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$ million
As at 31 December 2016			
Derivatives under hedge accounting	(1)	–	(1)
As at 31 December 2015			
Derivatives under hedge accounting	(71)	–	(71)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS continued

(d) Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$ million	Financial assets not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
As at 31 December 2016			
Counterparty D	(1)	–	(1)
As at 31 December 2015			
Counterparty A	(71)	–	(71)

4. FAIR VALUE MEASUREMENT

(a) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair values of financial assets and financial liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow methodology taking into account the market interest rate and credit risk of the counterparties and of the Group as appropriate.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values, except for the carrying amount of HK\$4,613 million (2015: HK\$4,609 million) fixed rate notes as stated in note 26 of the Notes to the Consolidated Financial Statements section with fair value of HK\$4,672 million (2015: HK\$4,785 million).

The fair value of HK\$2,340 million (2015: HK\$2,367 million) of the fixed rate notes is categorised into Level 1 of the fair value hierarchy, in which the fair value was derived from quoted prices in an active market translated at the spot foreign exchange rate of the respective currency at year end.

The fair value of HK\$2,332 million (2015: HK\$2,418 million) of the fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

Financial Risk Management continued

For the year ended 31 December 2016

4. FAIR VALUE MEASUREMENT continued

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2016			
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Financial assets				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	7	–	7
Cross currency swap	–	11	–	11
Total	–	18	–	18
Financial assets at FVTPL				
Unlisted club debenture	–	1	–	1
Total	–	19	–	19
Financial liabilities				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	1	–	1
2015				
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Financial assets				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	7	–	7
Financial assets at FVTPL				
Unlisted club debenture	–	1	–	1
Total	–	8	–	8
Financial liabilities				
Derivatives under hedge accounting				
Cross currency swap	–	71	–	71

There were no transfers between Levels 1 and 2 for both years.

4. FAIR VALUE MEASUREMENT continued

(c) Valuation techniques and inputs used in fair value measurements categorised within Level 2

Forward foreign exchange contracts and cross currency swap are measured using discounted cash flow methodology based on observable spot and forward exchange rates as well as the yield curves of the respective currencies taking into account the credit risk of the counterparties and of the Group as appropriate.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less time deposits, cash and bank balances.

The management reviews the Group's net debt to equity ratio regularly and adjusts the ratio through the payment of dividends, the issue of new share or debt, the repurchase of shares and the redemption of existing debt.

The net debt to equity ratio at the year end was as follows:

	2016 HK\$ million	2015 HK\$ million
Unsecured bank loans	1,680	250
Fixed rate notes	4,613	4,609
Borrowings	6,293	4,859
Less: Time deposits	(2,551)	(2,743)
Cash and bank balances	(79)	(61)
Net debt	3,663	2,055
Equity attributable to owners of the Company	67,490	68,172
Net debt to equity	5.4%	3.0%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Five-Year Financial Summary

For the year ended 31 December

	2016 HK\$ million	2015 HK\$ million	2014 HK\$ million	2013 HK\$ million	2012 HK\$ million
Results					
Turnover	3,535	3,430	3,224	3,063	2,486
Property expenses	(428)	(414)	(404)	(405)	(423)
Gross profit	3,107	3,016	2,820	2,658	2,063
Investment income	50	54	68	76	55
Other gains and losses	–	–	(2)	1	18
Administrative expenses	(219)	(234)	(214)	(208)	(187)
Finance costs	(178)	(204)	(228)	(242)	(156)
Change in fair value of investment properties	(1,187)	695	2,940	4,575	8,533
Share of results of associates	237	246	252	309	334
Profit before taxation	1,810	3,573	5,636	7,169	10,660
Taxation	(463)	(438)	(386)	(372)	(289)
Profit for the year	1,347	3,135	5,250	6,797	10,371
Non-controlling interests	(129)	(232)	(348)	(639)	(416)
Profit attributable to owners of the Company	1,218	2,903	4,902	6,158	9,955
Underlying profit for the year	2,369	2,283	2,163	2,043	1,622
Recurring underlying profit for the year	2,369	2,283	2,163	2,043	1,622
Dividends					
Dividends paid	1,394	1,330	1,255	1,064	859
Dividends proposed	1,139	1,122	1,064	1,010	829
Dividends per share (HK cents)	135.00	132.00	123.00	117.00	95.00
Earnings per share (HK\$), based on:					
Profit for the year					
– basic	1.16	2.73	4.61	5.79	9.38
– diluted	1.16	2.73	4.61	5.79	9.38
Underlying profit for the year – basic	2.26	2.15	2.03	1.92	1.53
Recurring underlying profit for the year – basic	2.26	2.15	2.03	1.92	1.53
Performance indicators					
Net debt to equity	5.4%	3.0%	4.2%	5.3%	6.2%
Net interest coverage (times)	23.5x	19.5x	17.1x	15.4x	16.8x
Net asset value per share (HK\$)	64.56	64.48	63.02	59.54	54.68
Net debt per share (HK\$)	3.50	1.94	2.64	3.18	3.41
Year end share price (HK\$)	32.05	31.75	34.65	33.40	37.25

At 31 December

	2016 HK\$ million	2015 HK\$ million	2014 HK\$ million	2013 HK\$ million	2012 HK\$ million
Assets and liabilities					
Investment properties	69,633	69,810	68,735	65,322	60,022
Investment in associates	3,497	3,683	4,154	4,181	3,759
Investment in a joint venture	145	–	–	–	–
Loan to a joint venture	1,891	–	–	–	–
Equity investments	–	–	–	–	1
Tax recoverable	–	–	–	–	2
Time deposits, cash and bank balances	2,630	2,804	3,640	4,123	2,311
Other assets	2,225	2,491	2,494	2,468	2,328
Total assets	80,021	78,788	79,023	76,094	68,423
Borrowings	(6,293)	(4,859)	(6,447)	(7,504)	(5,941)
Taxation	(863)	(803)	(732)	(660)	(511)
Other liabilities	(2,180)	(1,758)	(1,715)	(1,749)	(1,524)
Total liabilities	(9,336)	(7,420)	(8,894)	(9,913)	(7,976)
Net assets	70,685	71,368	70,129	66,181	60,447
Non-controlling interests	(3,195)	(3,196)	(3,089)	(2,855)	(2,324)
Shareholders' funds	67,490	68,172	67,040	63,326	58,123

Definitions:

- (1) Underlying profit for the year: profit adjusted for group's share of unrealised fair value changes on investment properties
- (2) Recurring underlying profit for the year: underlying profit adjusted for items that are non-recurring in nature (such as gains or losses on disposal of long-term assets)
- (3) Net debt to equity: borrowings less time deposits, cash and bank balances divided by shareholders' funds
- (4) Net interest coverage: gross profit less administrative expenses before depreciation divided by net interest expenses
- (5) Net asset value per share: shareholders' funds divided by number of issued shares at year end
- (6) Net debt per share: borrowings less time deposits, cash and bank balances divided by number of issued shares at year end

Report of the Valuer

To the Board of Directors
Hysan Development Company Limited

Dear Sirs,

Annual Revaluation of Investment Properties as at 31 December 2016

In accordance with your appointment of Knight Frank Petty Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the market value of the investment properties as at 31 December 2016 was in the approximate sum of Hong Kong Dollars Sixty-Nine Billion Six Hundred and Thirty-Three Million Only (ie HK\$69,633 million).

The completed investment properties have been valued individually, on market value basis, on the basis of capitalisation of the net income with due allowance for the reversionary income potential, without allowances for any expenses or taxation which may be incurred in effecting a sale and cross reference by sales comparables, where appropriate.

For the investment properties under redevelopment, residual method of valuation has been adopted. The valuation was mainly arrived at by reference to sales or rental evidences as available on the market to determine the value of the proposed redevelopment as if it were completed in accordance with the redevelopment proposal provided by the Company as at the date of valuation. All costs of the redevelopment, namely cost of construction, cost of finance, professional fees and allowance of profit required for the redevelopment were then deducted from the completion value of the proposed redevelopment to derive the market value of the properties as at the date of valuation. The construction costs and professional fees expended have been taken into account in the valuation.

Yours faithfully
Knight Frank Petty Limited

Hong Kong, 15 February 2017

Schedule of Principal Properties

At 31 December 2016

INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
1. Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100 %
2. Bamboo Grove 74-86 Kennedy Road Mid-Levels Hong Kong	I. L. 8624	Residential	Medium term lease	100 %
3. Lee Garden Two 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36 %
4. Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100 %
5. Lee Theatre Plaza 99 Percival Street Causeway Bay Hong Kong	I. L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100 %
6. Lee Garden Three 4-14 Hoi Ping Road 10 Hysan Avenue and 1-11 Sunning Road Causeway Bay Hong Kong*	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29, and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100 %
7. One Hysan Avenue 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100 %
8. Lee Garden Five 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100 %
9. Lee Garden Six 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100 %
10. Hysan Place 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100 %

* The above-ground construction is in good progress. The redevelopment site has an overall registered site area of approximately 31,000 square feet. The new development has a projected gross floor area of approximately 467,000 square feet and is targeted for completion in late 2017.

Overview

Financial Performance

Responsible Business

Corporate Governance

Financial Statements and Valuation

Shareholding Analysis

SHARE CAPITAL

At 31 December 2016

	HK\$	Number of Ordinary Shares
Issued and fully paid-up capital	7,673,427,935.19	1,045,328,359

There was one class of ordinary shares with equal voting rights.

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2016, as per register of members of the Company)

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of ordinary shares	% of the total no. of issued shares (Note)
5,000 or below	2,322	70.56	3,808,934	0.36
5,001 – 50,000	823	25.01	12,727,297	1.22
50,001 – 100,000	82	2.49	6,193,001	0.59
100,001 – 500,000	53	1.61	11,024,515	1.06
500,001 – 1,000,000	2	0.06	1,269,043	0.12
Above 1,000,000	9	0.27	1,010,305,569	96.65
Total	3,291	100.00	1,045,328,359	100.00

TYPES OF SHAREHOLDERS

(At 31 December 2016, as per register of members of the Company)

Type of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Atlas Corporate Management Limited	39,809,001	3.81
Lee Hysan Estate Company, Limited	393,321,734	37.62
Other corporate shareholders	576,380,647	55.14
Individual shareholders	35,816,977	3.43
Total	1,045,328,359	100.00

LOCATION OF SHAREHOLDERS

(At 31 December 2016, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Hong Kong	1,042,747,705	99.75
United States and Canada	2,249,924	0.22
United Kingdom	119,085	0.01
Others	211,645	0.02
Total	1,045,328,359	100.00

Note:

The percentages was compiled based on the total number of shares of the Company in issue (i.e. 1,045,328,359 ordinary shares) as at 31 December 2016.

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	22 February 2017
Ex-dividend date for second interim dividend	7 March 2017
Closure of register of members and record date for second interim dividend	9 March 2017
Dispatch of second interim dividend warrants	(on or about) 23 March 2017
Closure of register of members for AGM	12 to 15 May 2017
AGM	15 May 2017
2017 interim results to be announced	4 August 2017*

* subject to change

DIVIDEND

The Board declares the payment of a second interim dividend of HK109 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Thursday, 9 March 2017.

The register of members will be closed on Thursday, 9 March 2017, for the purpose of determining shareholders' entitlement to the second interim dividend, on which date no transfer of shares will be registered. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Wednesday, 8 March 2017.

Dividend warrants will be dispatched to shareholders on or about Thursday, 23 March 2017.

The register of members will also be closed from Friday, 12 May 2017 to Monday, 15 May 2017, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the AGM to be held on Monday, 15 May 2017, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Thursday, 11 May 2017.

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrar, Tricor Standard Limited:

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980 1768
Facsimile: (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrar promptly of any change of their address.

The Annual Report is printed in English and Chinese language and is available at the Company's website: www.hysan.com.hk. Shareholders may at any time choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hysan.com.hk.

INVESTOR RELATIONS

For enquiries relating to investor relations, please email to investor@hysan.com.hk or write to the Company at:

Investor Relations
Hysan Development Company Limited
49/F. (Reception: 50/F.), Lee Garden One
33 Hysan Avenue
Hong Kong
Telephone: (852) 2895 5777
Facsimile: (852) 2577 5153

Corporate Information

BOARD OF DIRECTORS

Irene Yun Lien LEE (*Chairman*)
Frederick Peter CHURCHOUSE**
Philip Yan Hok FAN**
Lawrence Juen-Yee LAU**
Joseph Chung Yin POON**
Hans Michael JEBSEN B.B.S.*
(*Trevor Chi-Hsin YANG as his alternate*)
Siu Chuen LAU*
Anthony Hsien Pin LEE*
(*Irene Yun Lien LEE as his alternate*)
Chien LEE*
Michael Tze Hau LEE*

AUDIT COMMITTEE

Joseph Chung Yin POON** (*Chairman*)
Frederick Peter CHURCHOUSE**
Philip Yan Hok FAN**
Anthony Hsien Pin LEE*

REMUNERATION COMMITTEE

Philip Yan Hok FAN** (*Chairman*)
Joseph Chung Yin POON**
Michael Tze Hau LEE*

NOMINATION COMMITTEE

Irene Yun Lien LEE (*Chairman*)
Philip Yan Hok FAN**
Lawrence Juen-Yee LAU**
Joseph Chung Yin POON**
Chien LEE*

* Non-Executive Director

** Independent Non-Executive Director

STRATEGY COMMITTEE

Irene Yun Lien LEE (*Chairman*)
Philip Yan Hok FAN**
Joseph Chung Yin POON**
Hans Michael JEBSEN B.B.S.*
Chien LEE*

COMPANY SECRETARY

Maggie Ka Ki CHEUNG

REGISTERED OFFICE

49/F. (Reception: 50/F)
Lee Garden One
33 Hysan Avenue
Hong Kong

OUR WEBSITE

Press releases and other information of the Group can be found at our internet website: www.hysan.com.hk.

SHARE LISTING

Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

STOCK CODE

The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticket Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants