



Lee Gardens: a Community and a Destination

2016
annual report

 **Hysan** 希慎

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2016 was a challenging year for Hysan. We faced expected and unexpected social, political and economic upheavals in Hong Kong and globally. These challenges were exacerbated by a number of structural shifts in our different business sectors. In this edition of our Annual Report, we detail our latest results and achievements, as well as our current and anticipated challenges. We explain our approach in curating our core portfolio at Lee Gardens as a thriving community and a top-of-mind destination for our tenants and customers, both local and overseas.

Sound Financials

Turnover
(2016):
HK\$3,535m
(+3.1% YoY)

Recurring
Underlying
Profit (2016):
HK\$2,369m
(+3.8% YoY)

Occupancy
(31/12/16):
Retail: 99%
Office: 96%
Residential: 82%



Investment Opportunities Beyond Our Core Area

Develop for sale project: successful bid for two Tai Po residential sites partnering HKR International

Remain well-positioned to seek further high quality projects aligned to Hysan's portfolio strategy in Hong Kong and beyond

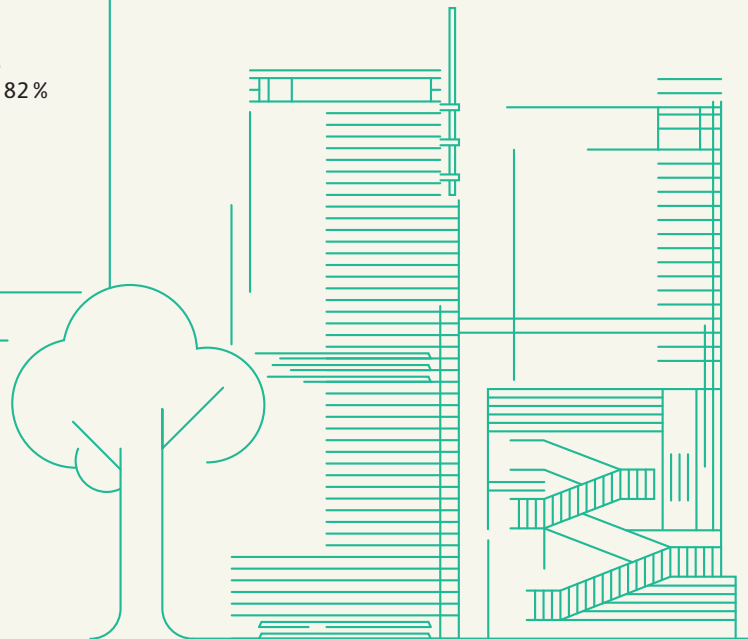
Solid Assets

Develop attractive buildings and enhance connectivity in our area

Promote green environment

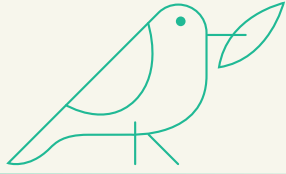
Provide professional and responsible property management

Maintain well-planned property enhancement cycles



Where We Are

We have sound financials and a strong team focused on realising the full potential of our portfolio in the heart of commercial Hong Kong. We also seek out and capture investment opportunities beyond our core.



LEE GARDENS

Lee Theatre

Hysan Place

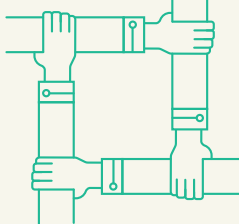
Lee Gardens

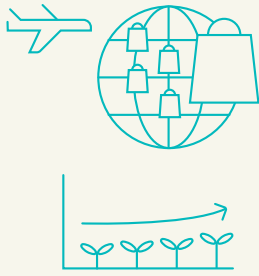
Discover More @
LEE GARDENS

Our Team

- Continuously deepening and broadening executive team to provide knowledge, experience, skills and relationships

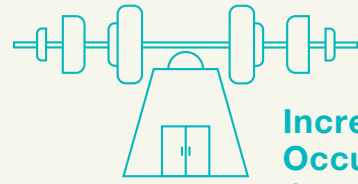
- Include team members with strong property experience in Hong Kong, Mainland China and overseas





Mainland Visitors' Spending Pattern Changes

- Travel and tax policy developments
- Desire to visit and shop beyond Hong Kong
- Buying power fueled by foreign exchange considerations
- Slower economic growth



Increase in Occupancy Costs

- Retail tenants feeling the pressure on rent
- Consolidation of number of shops may lead to higher vacancy rates

Our Competitors

- Competition shifting focus onto local customers
- Landlords working hard to retain tenants

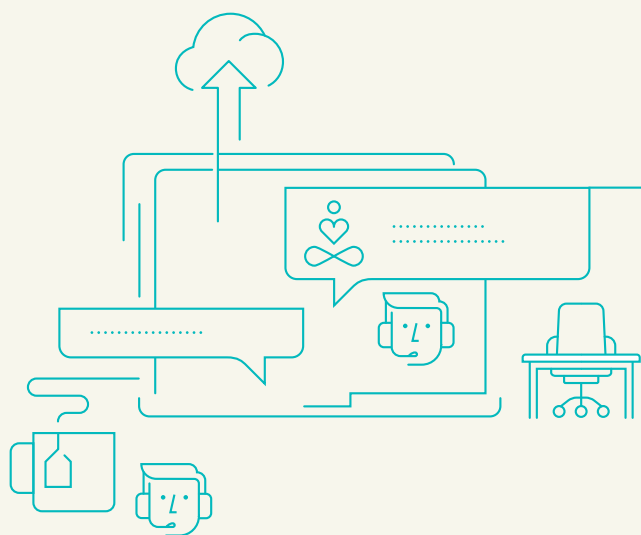
Retail Portfolio Structural Changes

- Millennials preferring everything digital
- Our customers and tenants' focus on health, wellness and lifestyle changing retail offerings



Trends Impacting Us

From the changing shopping habits of Millennials and Mainland Chinese, to rising competition; from anticipated office supply increase, to the surge of technology: our retail and office sectors are witnessing significant structural changes.

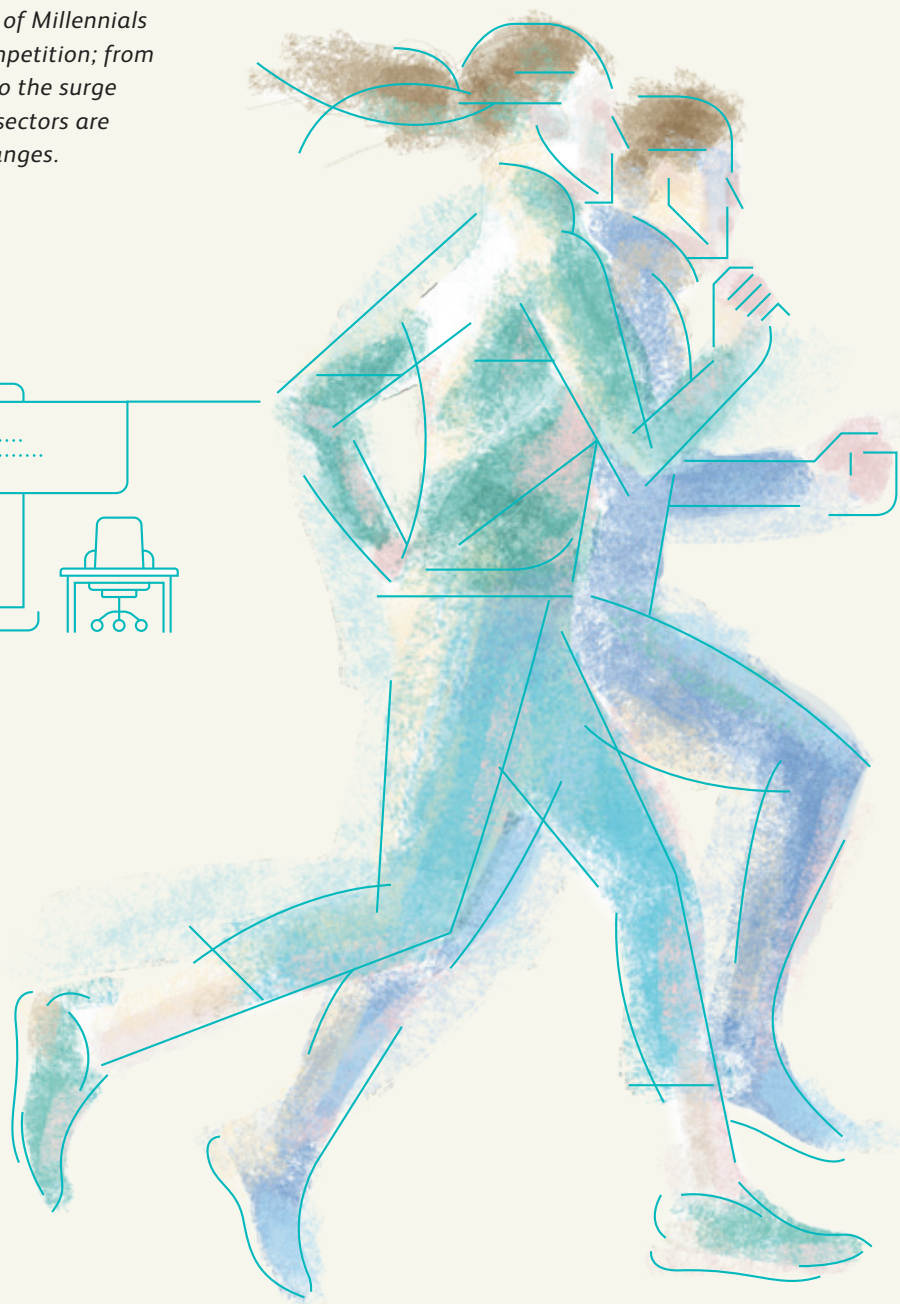


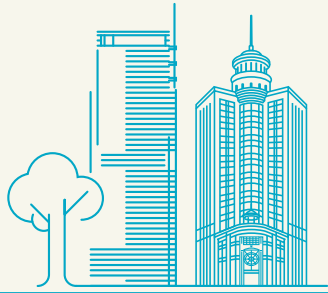
Office Portfolio Structural Changes

— More upcoming Grade A supply on Hong Kong Island

— Trend to use more open plan, activity-based or co-work space

— Technology and changing work habit leading to lower demand for space





Multi-dimensional Curation

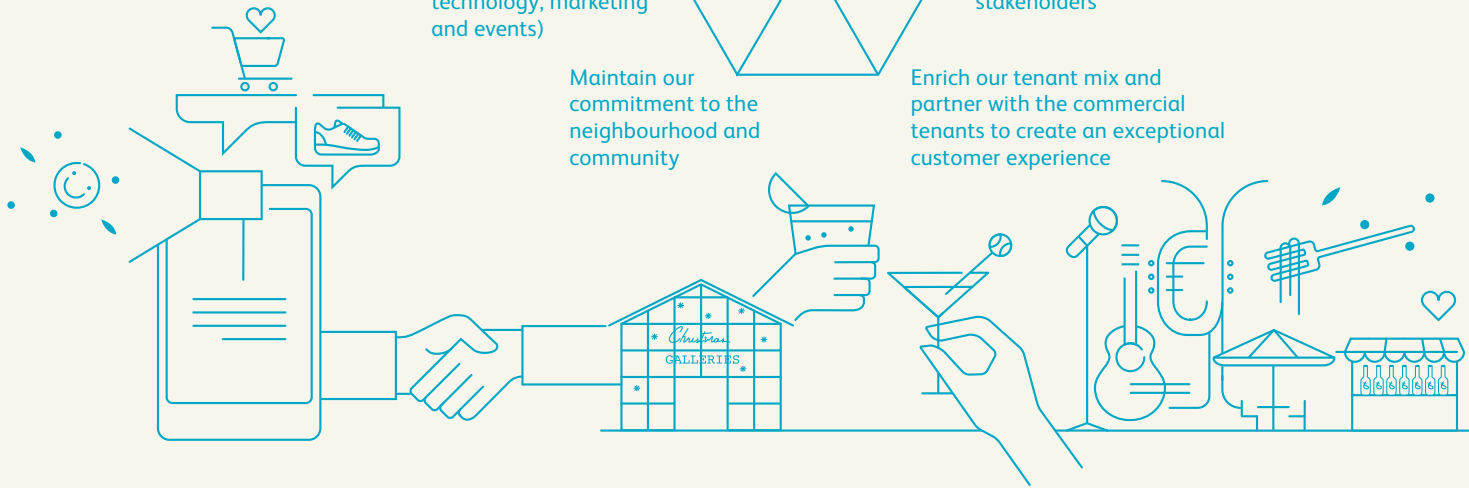
Refresh our hardware
(real estate)

Enhance our software
(customer service,
technology, marketing
and events)

Encourage interaction and
collaboration amongst all
stakeholders

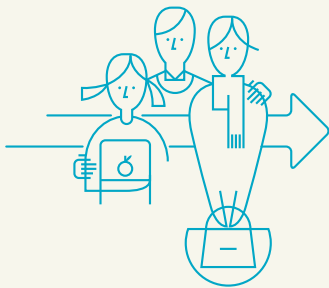
Maintain our
commitment to the
neighbourhood and
community

Enrich our tenant mix and
partner with the commercial
tenants to create an exceptional
customer experience



Our Recipe for Curating a Community and Destination

Lee Gardens has long been a unique community with spacious and green streets, eclectic shops, and where heritage low-rise mix seamlessly with state-of-the-art skyscrapers. Those who live, work, eat and shop here form an emotional attachment to the area. To ensure it remains a front-of-mind destination, we strive to innovate and curate relevant content for the community.

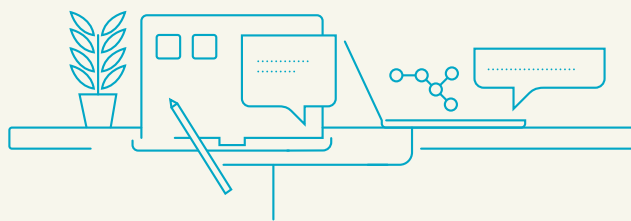


Extend Welcome to Newer Residents

Increasing group of Mainland Chinese professionals and families who work and live in Hong Kong

Lifestyle increasingly indistinguishable from longer-term residents from all over the world

They are part of the multinational Lee Gardens community



Lee Garden Three Credentials

Anticipated completion date in late 2017

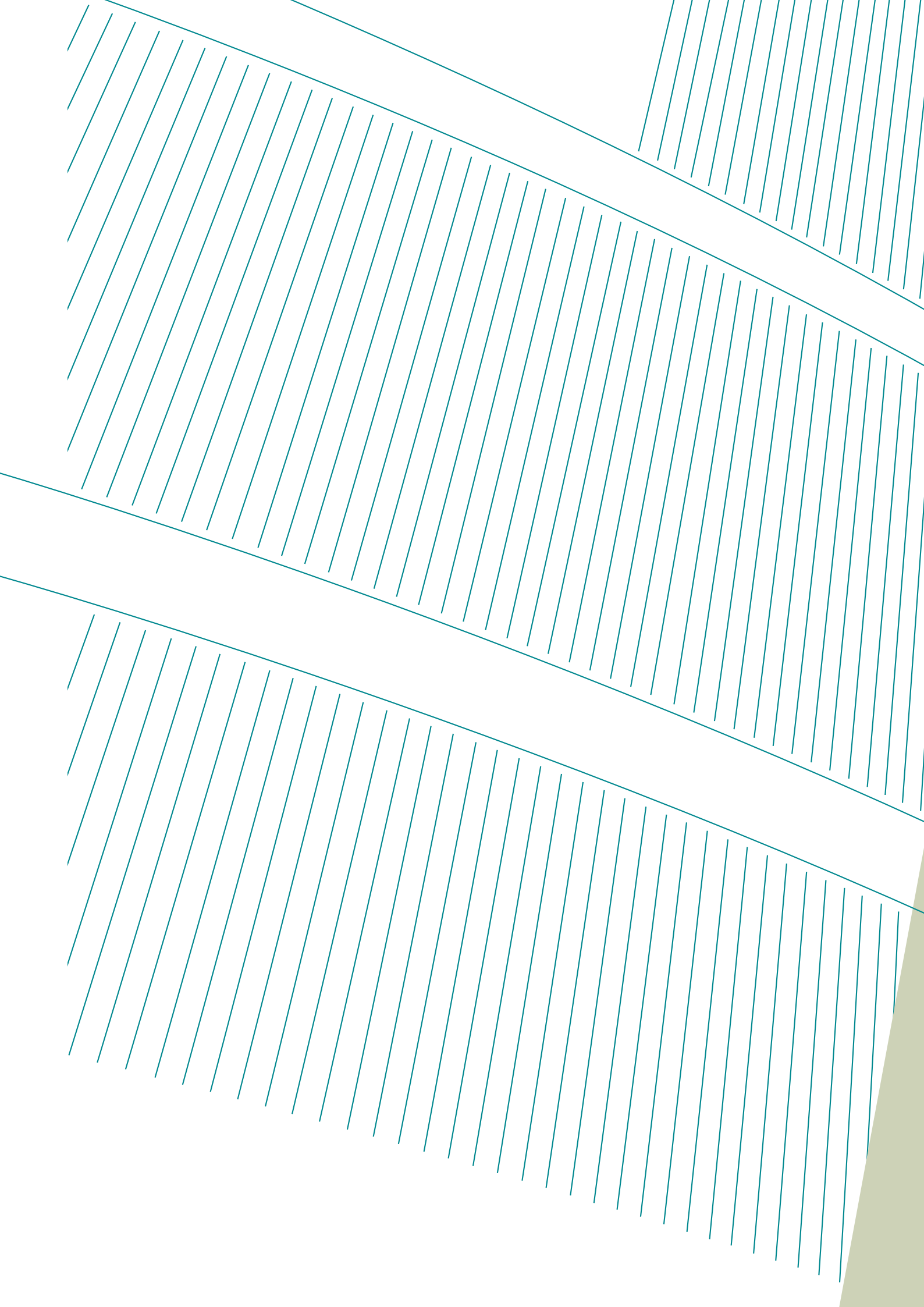
Aim for the highest BEAM Plus environmental standard

Provide indoor jogging track to promote health and wellness

Present innovative lifestyle offerings

Promote multi-dimensional interaction involving the landlord, tenants, workers and the community



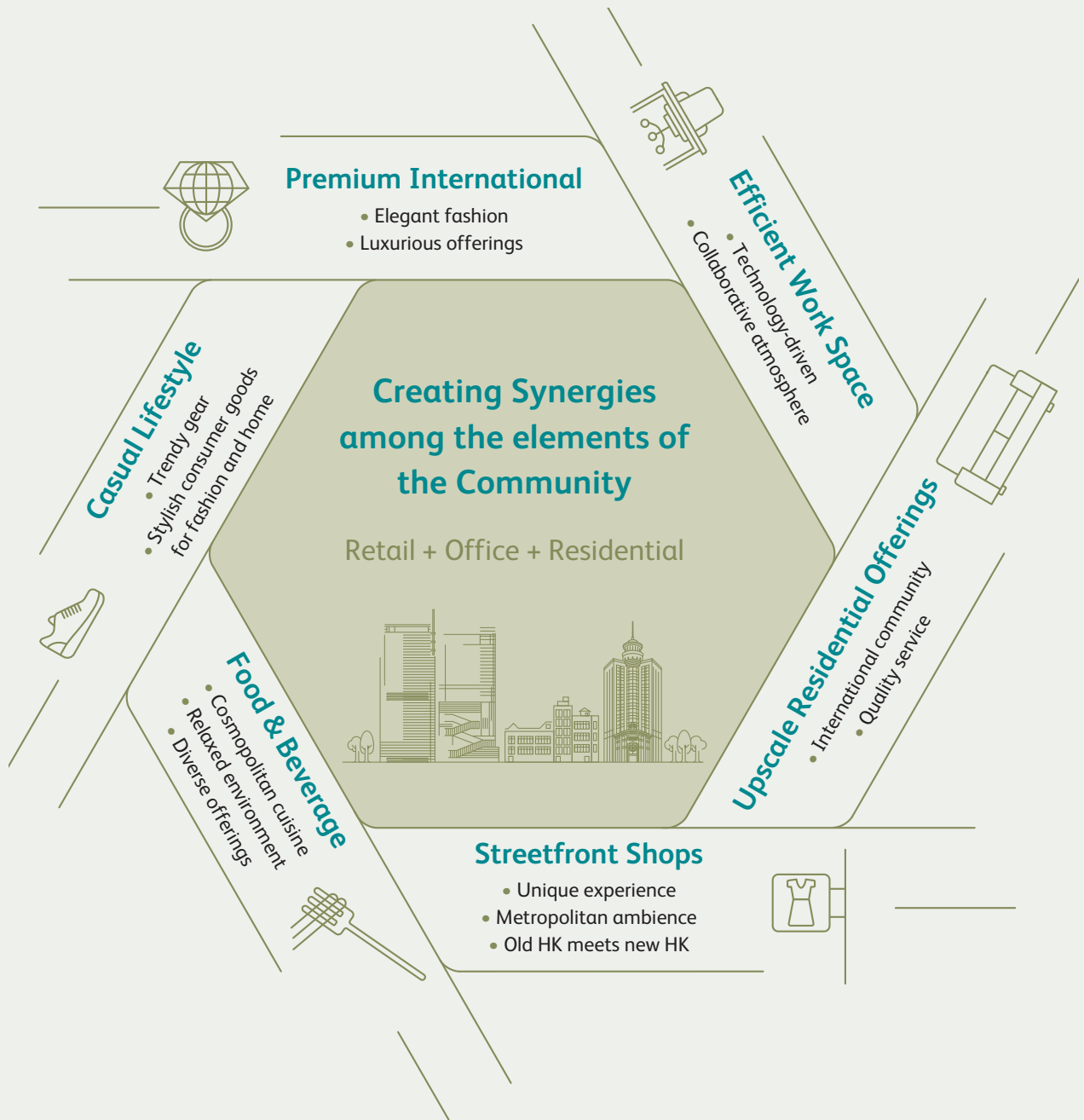


1 Overview

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Key Facts

Our Portfolio



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

Within our approximately 4.1 million square feet of retail, office and residential tenant space, excluding properties under redevelopment, we strive to become close partners with our tenants. By understanding and connecting our tenants’ and our customers’ needs, we create a sustainable community.

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

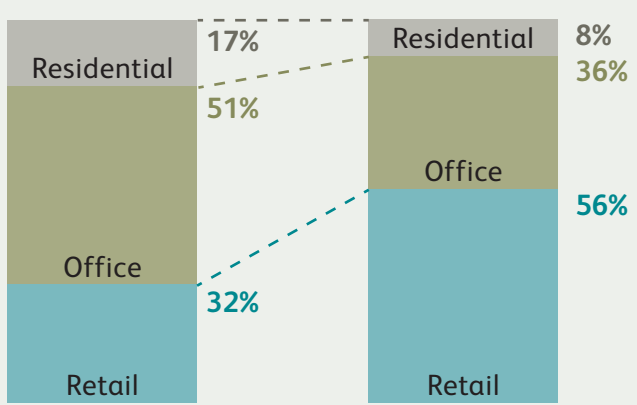
Overall

Investment Properties
(by Gross Floor Area excluding properties under redevelopment)

Investment Properties
(by Turnover Contribution)

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

Turnover
HK\$3,535 million



How We Do Things

VISION

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

MISSION

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

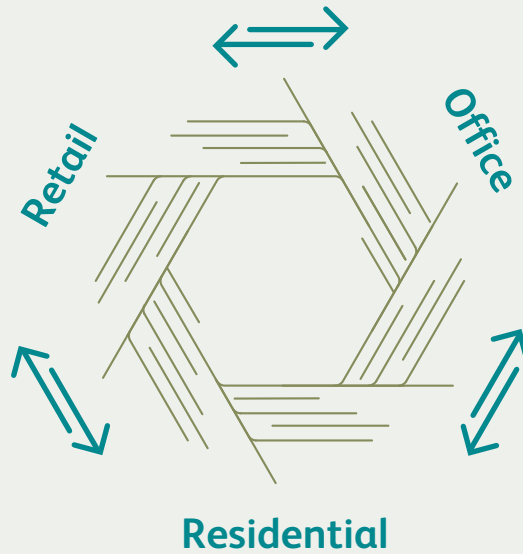
VALUES

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

Value Creation

Financial Achievements:

- Steady and progressive total return
- Strong Balance Sheet



Smooth interaction among our business units optimises the full potential of the portfolio

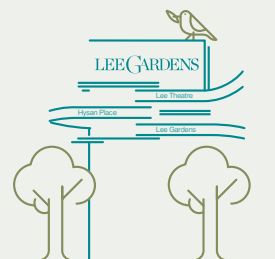
Supported by Strong Underlying Non-Financial Achievements:

Environment

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

Employees

Create working environment for talent to thrive

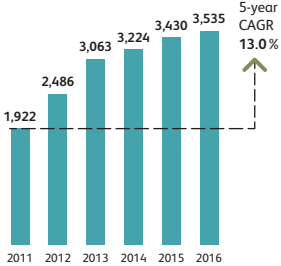


Continue strong focus in Causeway Bay and concurrently seek opportunities beyond our core portfolio

Increase Yields
through active management
including tenant mix improvement

Turnover

2011-2016 (HK\$ million)



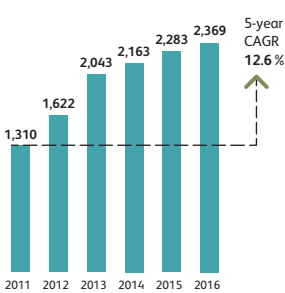
Asset Enhancement

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

Financial Achievements
increase earnings

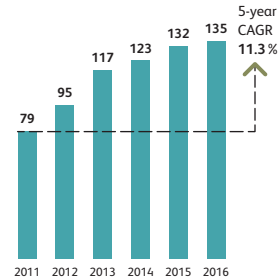
Recurring Underlying Profit

2011-2016 (HK\$ million)



Dividends per Share
provide steady growth

2011-2016 (HK cents)

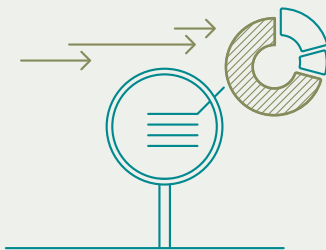


Community

Make positive
contributions to
communities where
we operate

Governance

Strong governance is the
heart of long-term
sustainable performance



Our Assets

Lee Theatre Plaza

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

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

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



Bamboo Grove

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

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

Quality international living in Mid-Levels

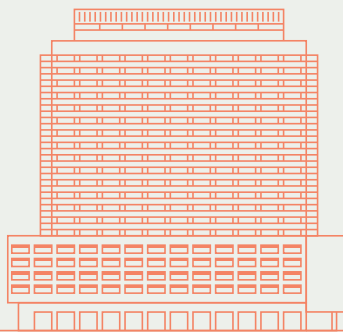


Leighton Centre

77 Leighton Road, Causeway Bay
Completed 1977 / Renovated 2011

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

Popular office amongst sports and lifestyle shops

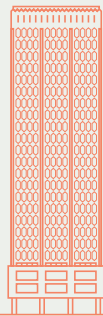


One Hysan Avenue

1 Hysan Avenue, Causeway Bay
Completed 1976 / Renovated 2011

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

Efficient office and retail building in prime site

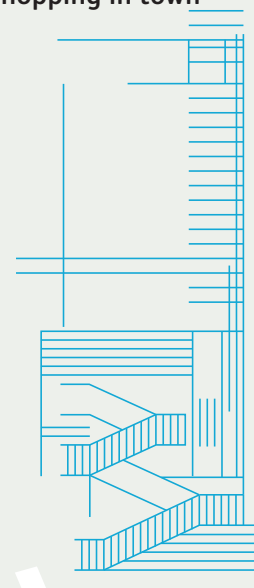


Hysan Place

500 Hennessy Road, Causeway Bay
Completed 2012

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

Greenest commercial building and trendiest shopping in town



* The approximate Gross Floor Areas of Lee Garden One, Lee Garden Two and Lee Theatre Plaza are revised upon the completion of renovation projects.



Lee Garden One

33 Hysan Avenue, Causeway Bay
Completed 1997

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

Home to international corporations and premium brands

Lee Garden Two

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

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

Spacious offices plus renowned children's concept floor

Lee Garden Five

18 Hysan Avenue, Causeway Bay
Completed 1989 / Renovated 2009

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

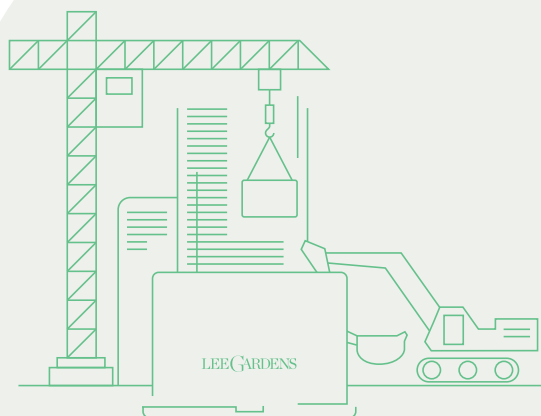
A 25-level office and retail complex

Lee Garden Six

111 Leighton Road, Causeway Bay
Completed 1988 / Renovated 2004

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

Convenient office location with retail shops



Lee Garden Three

Causeway Bay
To be completed in late 2017

Approx. Gross Floor Area **467,000** ft²
Number of Floors **32** Parking Spaces **200+**

Soon-to-be among the city's best known commercial addresses

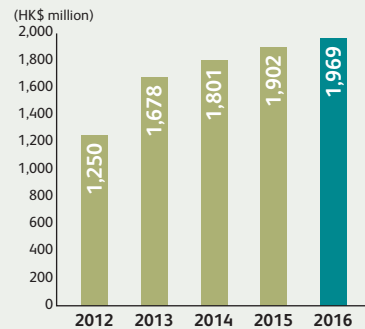
↑
N
Not to scale

2016 Performance at a Glance

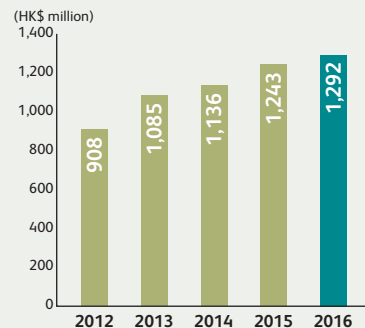
Financial Performance

Turnover **HK\$3,535m**
^ **3.1%**

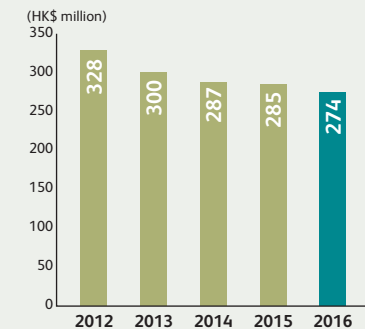
Retail Sector
HK\$1,969m ^ **3.5%**



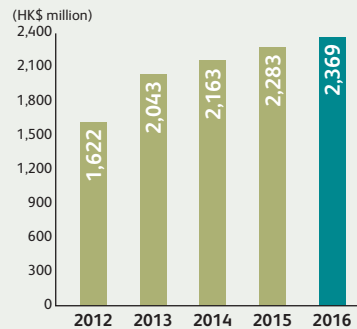
Office Sector
HK\$1,292m ^ **3.9%**



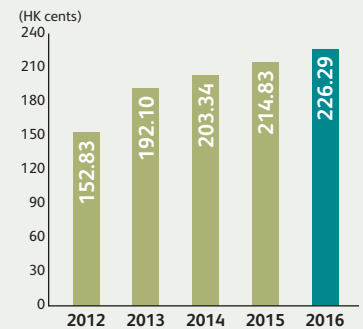
Residential Sector
HK\$274m v **3.9%**



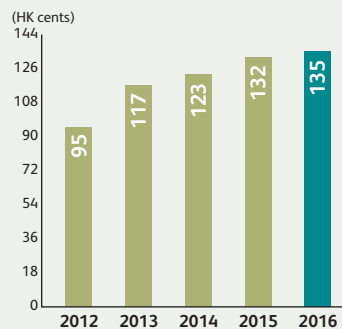
Recurring Underlying Profit **HK\$2,369m**
^ **3.8%**



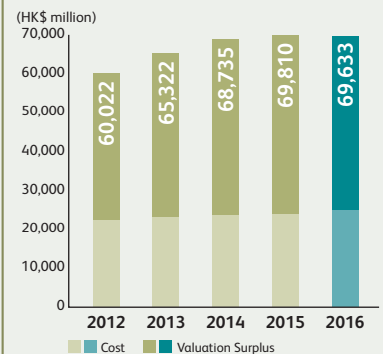
Recurring Underlying Earnings per Share **HK226.29cents**
^ **5.3%**



Dividends per Share **HK135cents**
^ **2.3%**

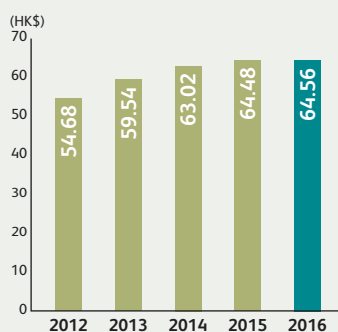


Property Value **HK\$69,633m**
v **0.3%**



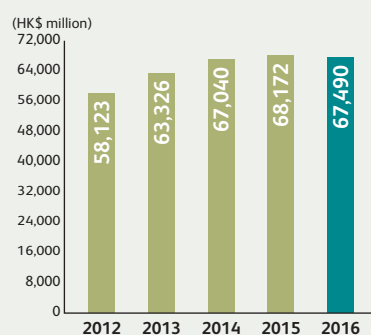
Net Asset
Value per
Share

HK\$64.56
▲ 0.1%



Shareholders' Funds
HK\$67,490m

✓ 0.1%



Financial Prudence

Net Interest Coverage (Note 1)

23.5 times
(2015: 19.5 times)

Net Debt to Equity (Note 2)

5.4%
(31 Dec 2015: 3.0%)

Average Cost of Finance

3.8%
(2015: 3.5%)

Average Debt Maturity

4.3 years
(31 Dec 2015: 6.3 years)

Fixed Rate Debt

73.4%
(31 Dec 2015: 94.9%)

Capital Market Issuances

73.4%
(31 Dec 2015: 94.9%)

Credit Ratings

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

Notes:

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

2016 Performance at a Glance

Non-Financial Performance

Environment

“AA”

- MSCI Global Sustainability Indexes: “AA” Rating and “Top 5 Industry Leaders” in the sub-category of “opportunities in green building”

“AA”

- Hang Seng Corporate Sustainability Index: “AA” Rating

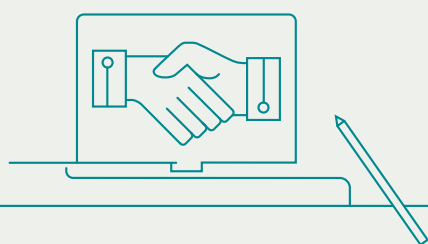
- Lee Garden One Offices is a finalist in Hong Kong Green Building Council and Professional Green Building Council’s Hong Kong Green Building Award 2016
- A “Top 80” rated stock in the Hong Kong Quality Assurance Agency (HKQAA) Sustainability Rating and Research 2016



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Social

- Constituent member of FTSE4Good index
- Founding member of Lee Gardens Association, an area organisation to promote Lee Gardens area to locals and visitors
- Gold Award for Volunteer Service (Organisation) (in 2016) under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department



LeeGardens
Association



Governance

- Gold Award (Non-Hang Seng Index Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2016
- Citation for Environmental, Social and Governance Disclosure in The Hong Kong Management Association's 2016 HKMA Best Annual Reports Awards



Chairman's Statement

Lee Gardens should be a front-of-mind destination, both for locals and visitors. We strive to innovate and curate content for our physical space and venues.



The Bigger Picture

The anticipated continuation of global political and economic instability in 2016, unfortunately, did materialise. The United States presidential election in November only added further uncertainty to a year of geopolitical tensions and market volatility.

Hong Kong's economy was buffeted by external headwinds throughout the year. The export performance remained weak while tourism, another pillar of Hong Kong's economy also continued to lose momentum, with Mainland Chinese visitors showing a significant decline. Local consumer sentiment, supported by a low interest rate environment and stable employment conditions, began to show signs of improvement towards the end of the year. Retail sales performance, affected by the further drop in tourist arrivals, also saw some easing in its year-on-year rate of decline in the last months of 2016. While luxury goods still attracted fewer buyers, some mid-priced to affordable items experienced improved sales.

The uncertain global economic climate and the continuing strength of the Dollar have affected sentiment and confidence. Local retail sales, coupled with changes in Mainland tourist spending pattern, have been weak for a number of quarters. This is our new normal. We have and will continue to position ourselves dynamically to capture the opportunities which come from these structural changes.

Where we are

We start off with sound financials. We have a strong balance sheet. Both our top line Turnover and our bottom line Recurring Underlying Profit saw growth against the weak economic backdrop in 2016. Occupancy levels for our main commercial portfolio continued to be strong. We will have more details on these figures in our "Business Performance" section.

Our assets are sound. We are not distracted by any distressed assets. We have well-planned property enhancement cycles, balancing longer term projects with those that produce immediate returns. Among the projects, Lee Garden Three's development work is expected to complete ahead of schedule. Lee Garden One's refurbishment was completed in 2016, with Valentino opening its flagship store in January 2017.

We have been exploring investment opportunities beyond our core Causeway Bay area. These include develop for sale projects. Such projects can become a new engine of growth for Hysan. In late 2016, we launched a successful bid for two residential sites at Tai Po's upscale Lo Fai Road. We are pleased to be partnering HKR International on this project, as the company has a recognised track record for developing quality low density residential projects. We remain well-positioned to seek further high quality projects aligned to Hysan's portfolio strategy, both in Hong Kong and beyond, while maintaining the Lee Gardens portfolio as our core focus.

Complementing our quality portfolio, we understand the need to have a strong team to provide the necessary knowledge, skills and relationships. Taking into account the macro environment with its uncertainties and opportunities, I will continue to lead the Hysan team as Executive Chairman. We are also ensuring our talent bench continues to improve in depth and breadth. Mr. Ricky LUI recently joined Hysan as our Chief Operating Officer. Ricky has more than 25 years of experience as a senior executive in the property industry. His extensive operating experience in the field, with a strong focus on Mainland China and Hong Kong, as well as deep knowledge of a number of overseas markets, will provide further expertise to help us forge ahead.

Our Challenges

All these positive factors contributed to our robust performance in 2016. We are, however, very much aware that we are facing a number of challenges throughout our business. Let us, therefore, start with the structural shift in the retail sector.

We spoke in our interim report about Millennials preferring everything digital. Their online and mobile way of life is only likely to evolve further away from the traditional shopping mindset. There has also been a refocusing on life's priorities, with health, wellness and lifestyle themes being particularly popular. This change in lifestyle pattern is also influencing our food and beverage offerings. Lighter and healthier eating and drinking choices, offered in stylish and relaxed informal venues, are becoming increasingly popular. Among the changes in shopping habits are the well-documented trends now shown by Mainland Chinese tourists. Although Hysan's portfolio does not rely heavily on their patronage, Mainlanders still form a significant group when it comes to spending. A range of factors has changed their spending pattern in Hong Kong. These include China's travel and tax policy changes, an increasing desire for Chinese tourists to visit and shop overseas, buying power fuelled by foreign exchange considerations, as well as China's slower economic growth and its well-known anti-corruption drive.

Hysan also faces more direct competition from other local landlords and their shopping malls. These retail property owners are shifting their focus towards targeting more local customers instead of visitors. At the same time, they are also working actively to attract and retain their tenants. We had a head start in creating a well-balanced retail portfolio and a sought after loyalty programme. Our competitors are now rapidly catching up.

We are also mindful that some of our retail tenants may be feeling extra pressure as their occupancy costs increase. Their wish to consolidate could lead to downward pressure on rents and this consolidation in the number of shops, inevitably, will lead to higher vacancy rates.

Our office portfolio is experiencing its own share of structural changes. Grade A office building supply on Hong Kong Island is set to increase in the next few years. On the demand side, we see an increasing trend for open plan and activity-based work spaces. In many cases, companies make use of co-work space either as temporary or more permanent space solutions. In addition, with office and personal mobile technology playing an increasingly important part in promoting efficiency and mobility, the need for fewer headcount, hence lower demand for space, is creating further uncertainty for our office leasing business.

Our business units' ability to succeed must be buttressed by effective support functions. Among the most important are the provision of efficient IT system and automated processes to drive efficiency and productivity. Using our customer relationship management system and intensifying our technology to promote social media will help our frontline property management, our leasing team and our marketing team to better service our loyalty programme, and to target and market to our existing and new customers.

Chairman's Statement

Our Recipe to Curate a Community and Destination

Our strong financial position underpinning our sound and diversified property portfolio should place us in a strong position. However, the challenges and structural changes we face, both in the retail and office sectors, are real and will be addressed.

Lee Gardens is a community. This is a unique and key differentiation. The district has long been appreciated by locals as a distinct part of Causeway Bay, and indeed, of Hong Kong, where the avenue and streets are spacious and green, forming a calming sanctuary from the buzz of busy, fast moving Causeway Bay. Heritage low rise buildings blend into state-of-the-art high rise buildings. Those who live, work, eat and shop in Lee Gardens form an emotional attachment to the community. They have felt and will continue to feel at home at Lee Gardens for generations to come.

Lee Gardens should be a front-of-mind destination, both for locals and visitors. We strive to innovate and curate content for our physical space and venues. These include refreshing our hardware (real estate), as well as our software (customer service, technology, marketing and events). These are further influenced by constantly enriching our portfolio's trade and tenant mix, together with our involvement and commitment to our neighbourhood and our community.

The above factors are interrelated. Hysan, our tenants, the wider members of the Lee Gardens community, regular and casual consumers and office visitors alike are all our stakeholders, and they all contribute to and benefit from our multi-dimensional curation. By encouraging interaction and collaboration amongst all parties, Hysan ensures that these stakeholders will help shape Lee Gardens as a retail, office and residential venue not just for today, but as a sustainable destination for the long term.

One good example of the interaction involves newer members of the community. Although fewer tourists from across the border are visiting Hong Kong, there is a growing population of Mainland Chinese professionals and their families who work and live in Hong Kong. Their working, shopping and dining habits are increasingly indistinguishable from longer-term Hong Kong residents, both ethnic Chinese and those from other parts of the world. Through their daily interaction with other stakeholders in our portfolio, they have become part of our multinational Lee Gardens community.

Lee Garden Three is our new building with an anticipated completion date in late 2017. Following in the footsteps of our renowned green commercial building Hysan Place, the new structure will aim for the highest BEAM Plus environmental standard. The partial green roof will help reduce the building's heat island effect and improve the area's microclimate. A garden with flora to attract butterflies will also be established to enhance the building's biodiversity. Further green walls will adorn the building's exterior. An indoor jogging track will be installed to promote health and wellness among the office users. With these features, we hope to further contribute both to the community's environment, as well as to the well-being of those who work and shop there. A high quality office and retail building is expected to attract renowned multinational companies as tenants. Again, we are focused on promoting multi-dimensional interaction involving the landlord, tenants, workers and the community.

Business Performance

The Group's 2016 turnover was HK\$3,535 million, up 3.1% from HK\$3,430 million in 2015. At year-end 2016, our retail portfolio occupancy was 99%. Occupancy of our office portfolio was 96%, and the residential portfolio was 82%.

Recurring Underlying Profit, our key core leasing business performance indicator, and Underlying Profit were both HK\$2,369 million (both up 3.8% from HK\$2,283 million in 2015). These results

primarily reflected the continued improvement in gross profit generated from our retail and office leasing activities. Basic earnings per share based on Recurring Underlying Profit was HK226.29 cents (2015: HK214.83 cents), up 5.3%.

The Group's Reported Profit for 2016 was HK\$1,218 million (2015: HK\$2,903 million), down 58.0%. This reflected fair value loss of HK\$1,187 million (2015: fair value gain of HK\$695 million) on the Group's investment properties valuation. As at year-end 2016, the external valuation of the Group's investment property portfolio decreased by 0.3% to HK\$69,633 million (2015: HK\$69,810 million). This reflected the net effect of several factors in play: a worsening retail rental outlook; a sustained positive office rental outlook; a number of asset enhancement works completed, as well as the construction costs incurred for the Lee Garden Three project during the year. The capitalisation rates of each portfolio remained unchanged from those used as at 31 December 2015.

Shareholders' Funds decreased by 1.0% to HK\$67,490 million (2015: HK\$68,172 million), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 23.5 times (2015: 19.5 times) and net debt to equity ratio of 5.4% (2015: 3.0%).

Capital Management

The Board of Directors is pleased to declare a second interim dividend of HK109 cents per share (2015: HK107 cents). Together with the first interim dividend of HK26 cents per share (2015: HK25 cents), the total distribution is HK135 cents per share (2015: HK132 cents), representing a year-on-year increase of 2.3%. The dividend will be payable in cash.

As part of our dynamic capital management, Hysan continued to repurchase its own shares from the market. 12.59 million (2015: 6.75 million) shares were repurchased during the year.

Outlook

Political and economic volatility in the global environment remain. The anticipated U.S. interest rate hike and the Chinese economic slowdown are among a number of factors that will keep local consumer sentiment relatively weak in 2017.

We have laid out our strategy to curate Lee Gardens as a community. We believe this is unique and will differentiate us from our competitors. Hysan is well-positioned for the challenges ahead.

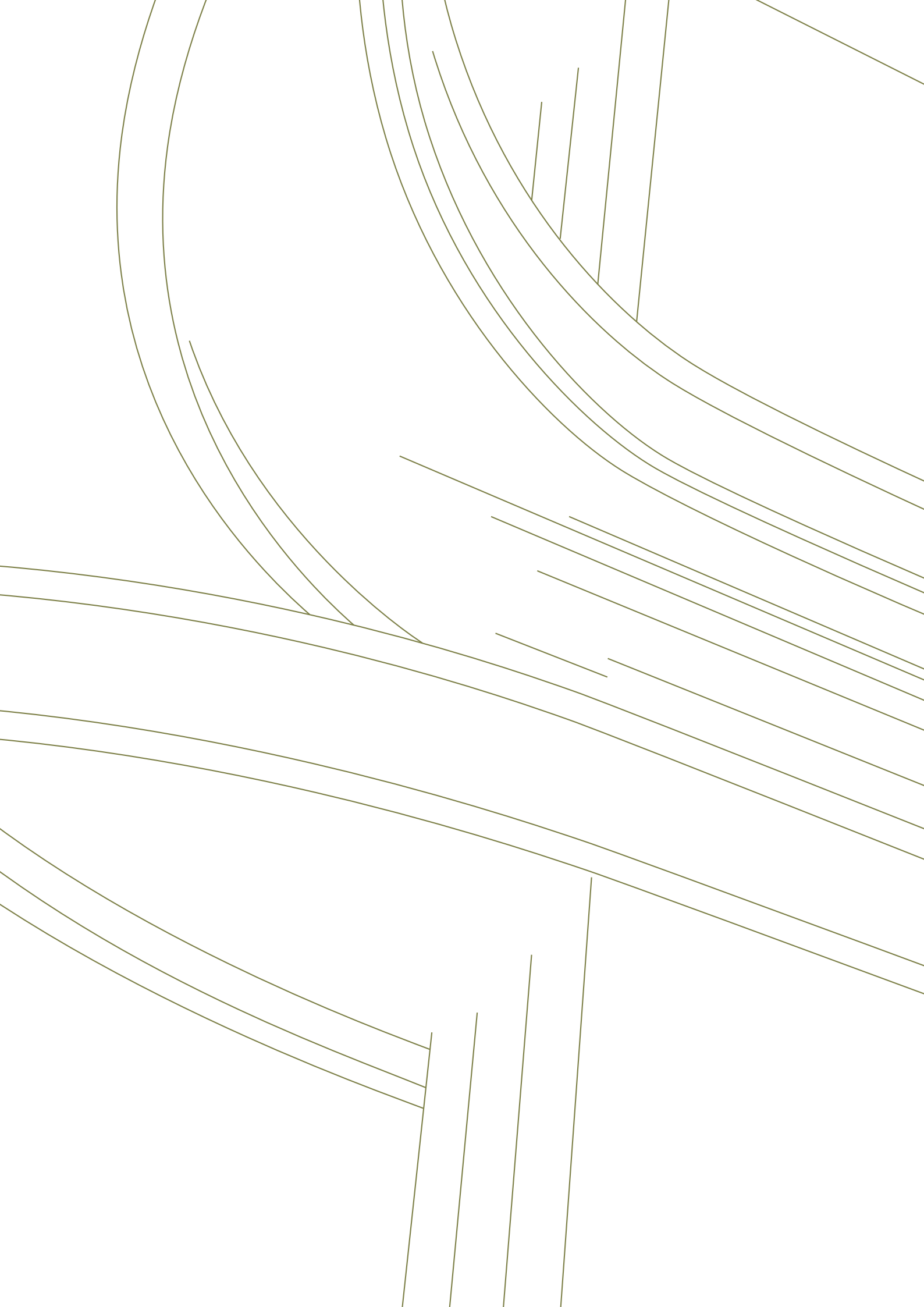
Appreciation

I would like to take this opportunity to thank our management team and our colleagues for all the effort they have made throughout a difficult 2016. I would also like to thank our directors for their support and guidance. My personal thanks go to Mr. Siu Chuen LAU, who stepped down from the roles of Deputy Chairman and Chief Executive Officer during the year. Siu Chuen's work as Hysan's CEO built a strong platform from which we shall continue to develop Lee Gardens into one of Hong Kong's most dynamic retail and office districts.

Irene Yun Lien LEE

Chairman

Hong Kong, 22 February 2017



2 Financial Performance

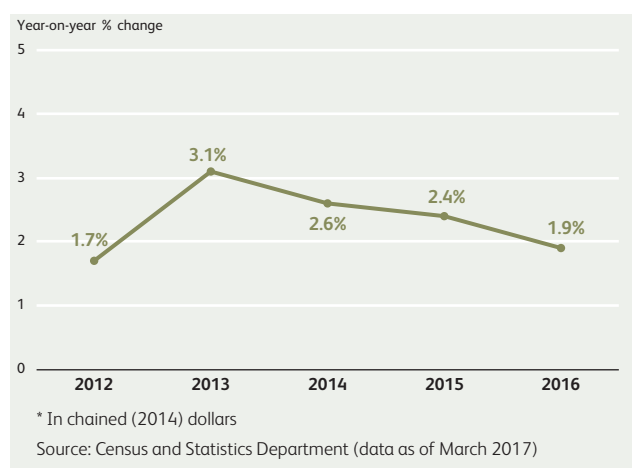
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The Marketplace

Hong Kong economy

The Hong Kong economy picked up slightly with a 1.9% growth for the full year. Private domestic expenditure increased 1.6% supported by favourable employment and earnings. Investment expenditure declined by 0.5%, dragged by the dampened sentiment during the first half of the year. Exports of goods rebounded by 1.7% upon the stabilisation of Asia markets while exports of services declined at 3.0% mainly due to the decelerating trend in visitor arrivals.

Real Gross Domestic Product*



Retail

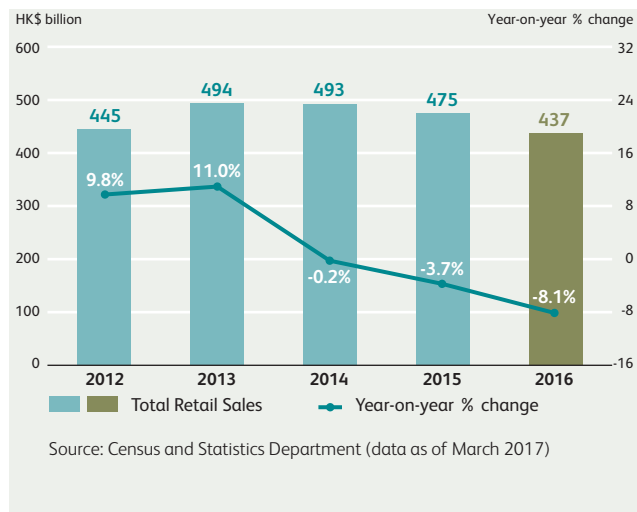
Retail sales recorded an annual decline of 8.1% as compared to the previous year. During the year, decelerating sales of luxury products and electronic goods were the key reasons for the overall decrease. Some categories, including supermarket and food-related items, remained in positive territory.

A 6.7% drop in Mainland Chinese visitors during the year was one of the core factors in the overall retail decline, although the rate of decline started to narrow in the second half of the year.

	Categories	2016 growth rate
Key dropping categories	Other consumer durable goods (including electronic goods and computers)	-26.6%
	Jewellery, watches and clocks, valuable gifts	-17.2%
Growing categories	Food and alcoholic drinks	+1.7%
	Supermarket	+0.8%

Source: Census and Statistics Department (data as of March 2017)

Hong Kong Total Retail Sales

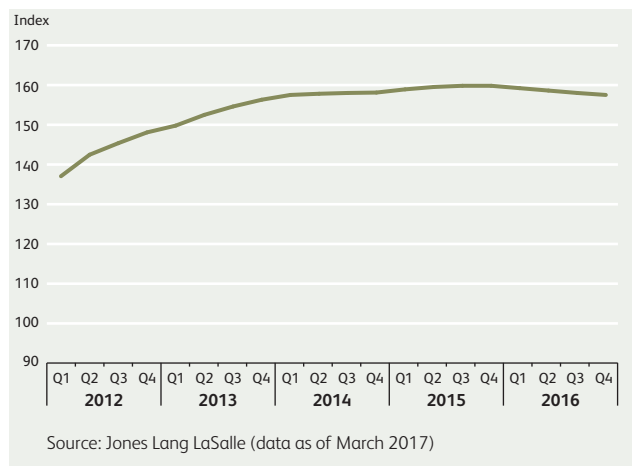


Total Number of Visitors



According to Jones Lang LaSalle, rents for retail premises in prime shopping centres dropped mildly by 1% due to the downturn of the luxury sector.

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



The Marketplace

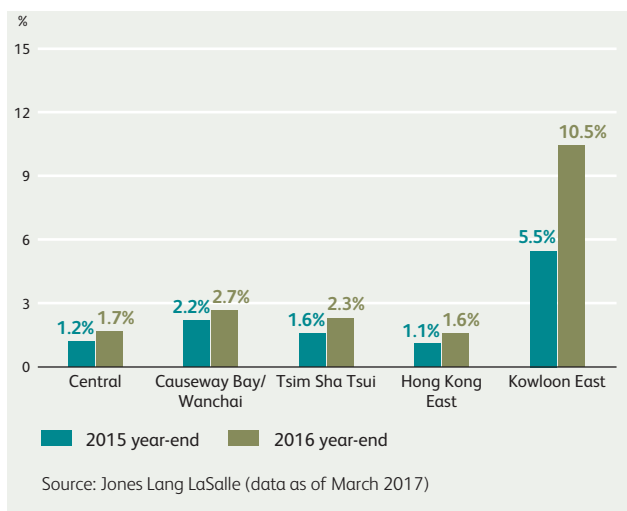
Office

Rents in the Grade “A” office market recorded good growth in general. The primary growth driver was the demand from Mainland Chinese firms, which offset the downsizing and relocation of MNC firms. Mainland Chinese companies took up about 40% of new lettings in Central during the year. However, some sub-markets e.g. Kowloon East, experienced a decline due to mounting supply pressure.

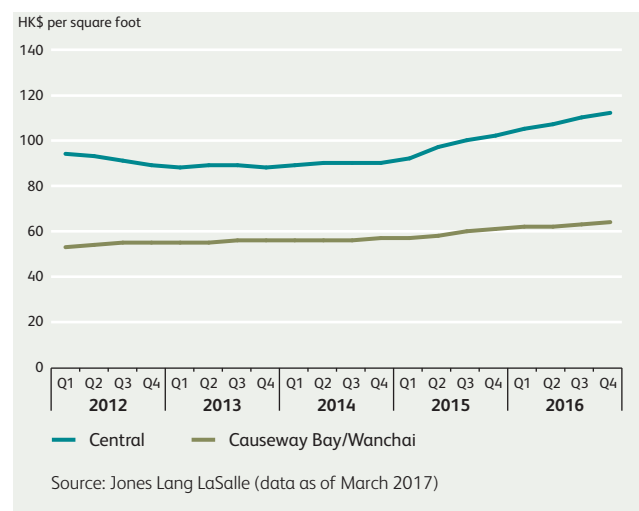
According to Jones Lang LaSalle, new Grade “A” office supply totaled 1.7 million square feet in 2016, which was a similar level to the average of the last 10 years (1.9 million square feet). However, the average net take-up experienced a negative figure of 0.1 million square feet, which was significantly lower than the average of the last 10 years (1.9 million square feet).

As at the end of December 2016, Kowloon East witnessed a substantial increase in vacancy while other sub-markets were generally on par.

Grade “A” Office Vacancy Rate in 2015 and 2016



Grade “A” Office Rental Value



Luxury Residential

Luxury rents were broadly stable despite a lack of traditional demand from MNCs and banks. There was a shift in tenant profiles as demand from Mainland Chinese who have recently relocated to Hong Kong increased.

According to Jones Lang LaSalle, the overall change in luxury residential rents stayed flat at 0.2% in 2016 as compared to the previous year.

Luxury Residential Rental Index (2009 Q4=100)



Management's Discussion and Analysis

Hysan's portfolio of retail, office and residential investment properties has a combined gross floor area of approximately 4.1 million square feet, excluding the site of the forthcoming Lee Garden Three.

Strategy

The Group maintains our commitment to pursue a steady growth of return for our shareholders. The Group's core focus remains in Causeway Bay, our home base for a number of decades, and where the vast majority of our portfolio is situated. In the meantime, the Group actively seeks other investment opportunities beyond our core, as demonstrated by our recent success in a joint-venture bid for two residential sites in Hong Kong's Tai Po.

For our existing properties, we strive to enhance their value through refurbishing, repositioning, redevelopment, and other means of portfolio management. We continue to build a thriving community for our retail and office tenants, underpinned by sound financial management and a dedicated team of employees with invaluable expertise across a broad range of real estate disciplines.

Review of Results

The Group's turnover in 2016 was HK\$3,535 million, an increase of 3.1% from HK\$3,430 million in 2015. The increase principally reflected overall positive rental reversion within the portfolio. Both the retail and office sectors saw rises, while the residential sector experienced a decline.

The turnover of each sector is shown as below:

	2016 HK\$ million	2015 HK\$ million	Change %
Retail sector	1,969	1,902	+3.5
Office sector	1,292	1,243	+3.9
Residential sector	274	285	-3.9
	3,535	3,430	+3.1

The Group's Recurring Underlying Profit and its Underlying Profit were both HK\$2,369 million, up 3.8% from HK\$2,283 million in 2015. These indicators primarily reflected the continued improvement in gross profit generated from our retail and office leasing activities. Basic earnings per share based on Recurring Underlying Profit were HK226.29 cents (2015: HK214.83 cents), up 5.3%.

Our Reported Profit for 2016 was HK\$1,218 million (2015: HK\$2,903 million), a 58.0% decrease from the year before, principally reflecting the fair value loss (2015: fair value gain) on the Group investment properties valuation recorded this year. This also highlighted the net effect of several factors in play: a worsening retail rental outlook; a persistently positive office rental outlook; a number of enhancement works made, as well as the construction costs incurred for the Lee Garden Three project during the year. The capitalisation rates of each portfolio remained unchanged from those used as at 31 December 2015.

	2016 HK\$ million	2015 HK\$ million	Change %
Recurring Underlying Profit and Underlying Profit	2,369	2,283	+3.8
Fair value (loss) or gain on investment properties located in			
– Hong Kong (net of effect of non-controlling interests' shares)	(1,157)	616	n/m
– Shanghai*	6	4	+50.0
Reported Profit	1,218	2,903	-58.0

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

n/m: not meaningful

Review of Operations

As at 31 December 2016, about 83% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay, and the remaining 17% was represented by residential properties in the Mid-Levels.

In terms of turnover contributions by the different business portfolios, about 56% was attributable to retail, 36% to office, and 8% to residential properties.

KEY PERFORMANCE INDICATORS

The Group's turnover growth and occupancy rate are the key measurements used for assessment of our core leasing business' performance. The Group's management also uses the property expenses ratio (as a percentage of turnover) to assess cost effectiveness.

Key Performance Indicators	Definition	Business Performance
Turnover Growth	Rental revenue in 2016 vs that in 2015	Retail: +3.5% (2015 vs 2014: +5.6%) Office: +3.9% (2015 vs 2014: +9.4%) Residential: -3.9% (2015 vs 2014: -0.7%)
Occupancy Rate	Percentage of total area leased*/ total lettable area* of each portfolio at year end	Retail: 99% (2015: fully-let) Office: 96% (2015: 99%) Residential: 82% (2015: 89%)
Property Expenses Ratio	Property expenses divided by turnover	Remained at 12.1% in both years of 2016 and 2015

* Source of underlying data: Internal company data

Note: No changes have been made to the source of data or calculation methods used compared to 2015.



RETAIL PORTFOLIO

Turnover ↑ 3.5%	Rental reversion ↑ around 5%	Occupancy 99%	Traffic ↑ around 5%	Overall estimated tenant sales ↓ around 30%
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Hysan’s retail portfolio turnover grew 3.5 % to HK\$1,969 million (2015: HK\$1,902 million), including turnover rent of HK\$46 million (2015: HK\$71 million).

The portfolio saw positive rental reversion in rental renewals, reviews and new lettings, with an average increase of around 5 %. The portfolio occupancy was 99 % as at 31 December 2016 (31 December 2015: fully-let).

Our creative retail experiences, including but not limited to new food and beverage outlets, as well as innovative in-mall marketing activities, enable the portfolio to maintain an iconic image as a premier shopping destination with hubs of different price points.

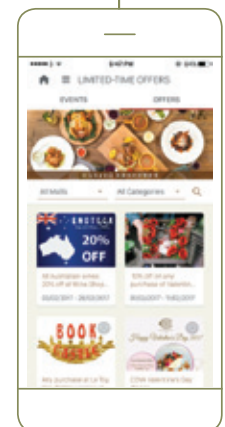
This variety helped our total foot traffic to maintain its growth, and it saw an increase of around 5 %, as compared to the year before. This robust performance was achieved during a period of decline in the number of overseas visitors to Hong Kong.

The estimated overall tenant sales within the retail portfolio, however, experienced a double-digit percentage decline. The estimated sales decrease of certain electronic goods within the portfolio was a main contributor to this relative weakness. Otherwise, the decline was much milder, and was in fact less severe than the decrease experienced by Hong Kong’s overall retail sales during the year.

Our trend-setting hub, Hysan Place, saw a footfall growth of around 5 %, as compared to 2015. During the year, we added a number of hip and trendy fashion stores, as well as wellness and sports shops to the tenant mix. These themes also appeared as popular in-mall events, with “Greatest of All Time” iconic sport stars statues and three-pointer shooting games attracting basketball fans from all over the city, while “VR 360 Tennis in the Air” strongly appealed to the racquet and tech-loving crowd. A number of new food and beverage outlets joined the mall in 2016, including the popular Kikusan, Pizza Maru, Green Waffle Diner and Pressed Juices.

The premium Lee Gardens hub continued to register foot traffic growth, against a backdrop of overall decline of visitors in Hong Kong. The footfall increased by more than around 5 % in Lee Garden Two, as compared to the 2015 figure. A number of fashion brands opened at Lee Gardens hub, including Loro Piana, Theory, Pinko and Marina Rinaldi, while the hub’s food and beverage offerings remained popular. Two new outlets of affordable international fare, Passion by Gerard Dubois and Panino Giusto were added to the line-up during the year.

Lee Theatre hub also experienced an increase of around 5 % in foot traffic, as compared to 2015. The lower floor flagship stores in Lee Theatre Plaza continued to attract shoppers throughout the year. The Korean brand Dodam Chicken also helped strengthen the dining experience for a younger crowd.

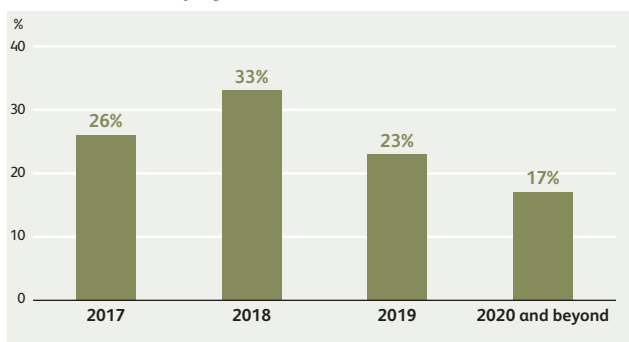


While these three hubs do have their special characteristics, we believe our retail portfolio should be considered in a more holistic manner. We are working to improve the connections among the different hubs, both in terms of physical linkage and the content provided by the tenants, and aim to encourage consumers to shop and dine throughout the portfolio.

In recent years we have run a successful Lee Gardens Office Plus tenant membership programme. In 2016, we upgraded the programme to create a new Lee Gardens Plus and expanded the membership to include staff of retail tenants, as well as residents of Bamboo Grove and Lee Gardens Apartments. We launched this offer-and-reward programme into an application-based one to match the needs of today's tech-savvy users. Offers are now redeemed via the mobile app's QR codes. This initiative is part of our drive to combine online and offline activities.

We also improved our loyalty programme, Club Avenue. An extra tier was added to the structure so that we could cater to more regular moderate spenders. We have also enhanced the Club's facilities and the training of our staff with an aim to provide service that exceeds customer expectations.

Retail Lease Expiry Profile (As at 31 December 2016)



Management's Discussion and Analysis

OFFICE PORTFOLIO

Turnover	Rental reversion	Occupancy
↑ 3.9%	↑ around 25%	96%



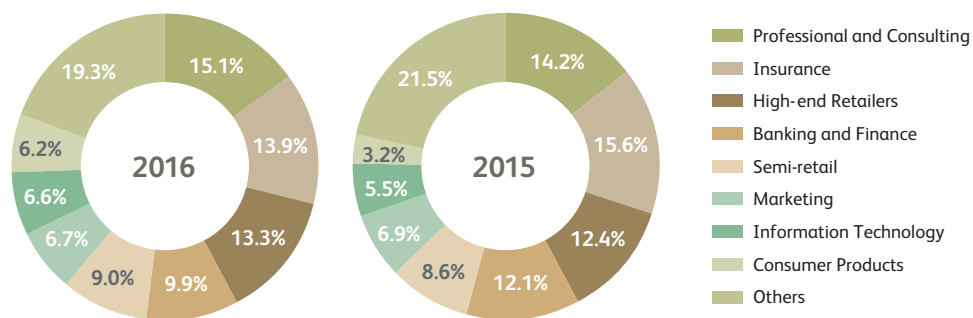
The Group's office portfolio turnover grew by 3.9% to HK\$1,292 million (2015: HK\$1,243 million). This reflected positive rental reversion on renewals, reviews and new lettings, with an average rental increase of around 25%.

The office portfolio occupancy was 96% as at 31 December 2016 (31 December 2015: 99%). Among the available spaces were a number of small units in non-Grade A buildings.

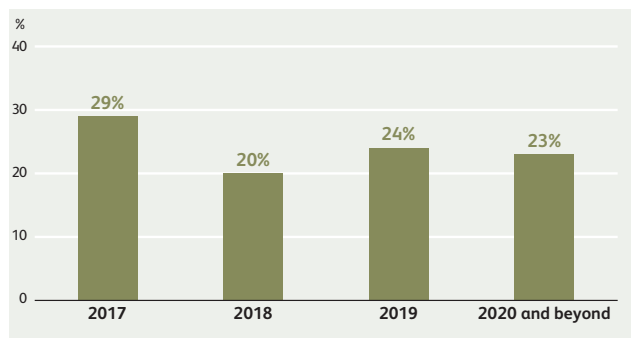
Mainland Chinese banking and financial entities continued to form the backbone of office space demand in Central and Admiralty. The launch of the Shenzhen-Hong Kong stock connect scheme in late 2016 complemented the existing Shanghai link, and is likely to help maintain these entities' presence and expansion in the market. Companies in other industries, looking for quality space with up-to-date facilities, good transport links and cost effectiveness, are placing Causeway Bay and Lee Gardens high on their list of preferences. In 2016, Uber and AXA were examples of renowned international companies joining the portfolio. Southwest Securities, an established investment and securities company in the Greater China region also took up office space, while Prudential Hong Kong expanded its presence in Lee Gardens.

Our tenant mix saw some minor changes in 2016, with professional and consulting services now being the sector occupying the most area, followed by insurance, high-end retailers and banking and finance. These sectors took up 52.2% of our lettable floor area. The well balanced mix saw no category taking up more than 20% of the total lettable area.

Office Tenant Profile by Area Occupied as at Year-end



Office Lease Expiry Profile (As at 31 December 2016)



RESIDENTIAL PORTFOLIO

Turnover
↓ **3.9%**

Rental reversion
↑ **around 5%**

Occupancy
82%



Hysan's residential portfolio (mainly the units in Bamboo Grove on Kennedy Road), recorded a 3.9% turnover decline to HK\$274 million (2015: HK\$285 million). This was largely due to large scale upgrade and renovations. The portfolio's occupancy was 82% as at 31 December 2016 (31 December 2015: 89%).

The rental reversion was positive on renewals, review and new lettings, with an average rental increase of around 5%.

LEE GARDEN THREE PROJECT

The above-ground construction was up to 22/F as of mid-February 2017 and was making good progress towards its expected completion date in the fourth quarter of 2017.

LEE GARDEN ONE ENHANCEMENT PROJECT

The final phase of the ground floor lobby and higher floors' retail space enhancement project was completed in the middle of 2016 as scheduled. Two new food and beverage outlets were added to enhance our restaurant offerings in the building, while Valentino opened its new expanded store in January 2017.



Management's Discussion and Analysis

Financial Review

A review of the Group's results and operations is featured in the preceding sections. This section deals with other significant financial matters.

OPERATING COSTS

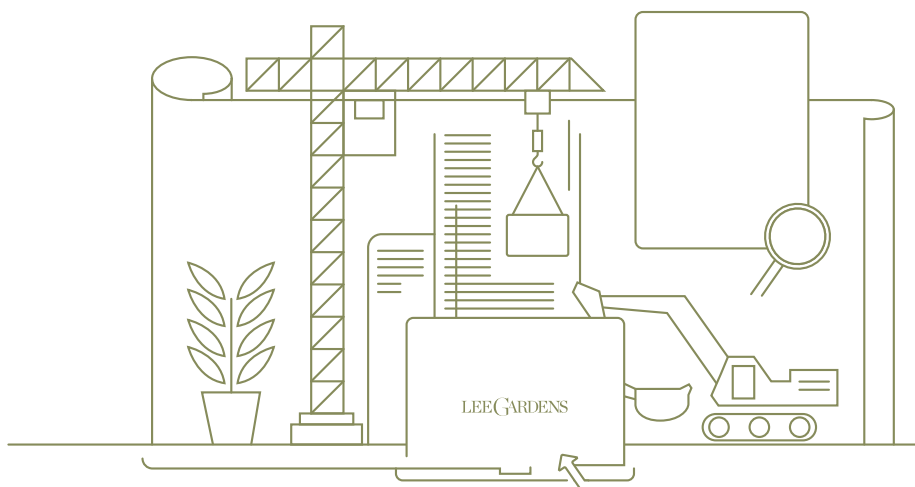
The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs largely representing payroll related costs of management and head office staff).

Property expenses increased by 3.4% to HK\$428 million (2015: HK\$414 million), mainly due to higher fees to external leasing agents. The property expenses to turnover ratio remained the same at 12.1% for both years of 2016 and that of 2015.

Administrative expenses dropped by 6.4% to HK\$219 million (2015: HK\$234 million). This mainly reflected the reduced payroll related costs due to the resignation of Executive Directors in both years.

FINANCE COSTS

Finance costs, after capitalisation of HK\$14 million (2015: nil) interest expenses and related borrowing costs which were a part of the construction costs of Lee Garden Three, recorded a decrease of 12.7% to HK\$178 million (2015: HK\$204 million). If the capitalised interest expenses and related borrowing costs were included, the Group's finance costs in 2016 would have been HK\$192 million, a decrease of 5.9% from HK\$204 million in 2015. The decrease was attributable to the lower average debt level in 2016 as compared to 2015 after debt repayments in both years. A HK\$500 million bank loan was drawn down in the first half of 2016 but the related finance costs were capitalised as part of the construction costs of Lee Garden Three.



The debt repaid in both years were mainly structured on a floating rate basis, which generally carried lower finance costs as compared with fixed rate debts. As a result, the Group's average cost of finance in 2016 was 3.8%, slightly higher than 3.5% reported for 2015.

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

REVALUATION OF INVESTMENT PROPERTIES

Fair value loss on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$1,187 million (2015: fair value gain of HK\$695 million) was recognised in the Group's consolidated income statement for the year. This principally reflected the net effect of several factors: a worsening retail rental outlook; a sustained positive office rental outlook; a number of asset enhancement works completed, as well as the construction costs incurred for the Lee Garden Three project.

As at 31 December 2016, the Group's investment property portfolio (including property under redevelopment) was HK\$69,633 million, a slight decrease of 0.3% from HK\$69,810 million at 31 December 2015. This valuation was carried out by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The capitalisation rates of each portfolio remained unchanged from those used as at 31 December 2015.

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

	2016 HK\$ million	2015 HK\$ million	Change %
Retail	33,082	34,230	-3.4
Office	23,832	23,110	+3.1
Residential	7,859	7,833	+0.3
	64,773	65,173	-0.6
Property under redevelopment (Lee Garden Three)	4,860	4,637	+4.8
	69,633	69,810	-0.3

INVESTMENT IN AN ASSOCIATE

The Group's share of results of an associate decreased by 3.7% to HK\$237 million (2015: HK\$246 million). This decline was mainly due to the Renminbi devaluation during the year, which impacts on the value of the Group's share (24.7%) in the Shanghai Grand Gateway project. As at 31 December 2016, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, of the associate amounted to HK\$6 million (2015: HK\$4 million).

OTHER INVESTMENTS

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

Investment income, comprising mainly interest income, amounted to HK\$50 million (2015: HK\$54 million). This principally reflected a lower average investment amount after repayment of matured debts and the use of cash for share repurchases.

Management's Discussion and Analysis

Cash Flow

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

	2016 HK\$ million	2015 HK\$ million	Change %
Operating cash inflow	3,326	2,908	+14.4
Investments	1,331	1,250	+6.5
Financing	1,427	(1,587)	n/m
Advance to a joint venture company	(2,036)	–	n/m
Interest and taxation	(523)	(480)	+9.0
Dividends paid and proceeds on exercise of options	(1,500)	(1,454)	+3.2
Capital expenditure	(847)	(414)	n/m
Consideration for shares repurchased	(395)	(215)	+83.7
Net cash inflow	783	8	n/m

n/m: not meaningful

The Group's net operating cash inflow was HK\$3,326 million (2015: HK\$2,908 million), HK\$418 million higher than in 2015, reflecting the growth in our core leasing business. Net cash from investments was HK\$1,331 million (2015: HK\$1,250 million), mainly attributable to reduction in investments in time deposits and term notes with longer tenors, as compared to 2015. Net cash from financing was HK\$1,427 million (2015: net cash used in financing: HK\$1,587 million), reflecting new bank loans of HK\$1,680 million and repayment of a HK\$250 million bank loan during the year. In 2015, net cash used in financing was HK\$1,587 million, principally due to the repayment of HK\$850 million bank loans and HK\$732 million medium term notes.

Cash in advance to a joint venture company was for residential sites' development in Tai Po. The Group paid dividends of HK\$1,394 million (2015: HK\$1,330 million), being the 2015 second interim dividend of HK107 cents per share and the 2016 first interim dividend of HK26 cents per share.

CAPITAL EXPENDITURE AND MANAGEMENT

The Group is committed to enhancing the asset value of its investment property portfolio through selective asset enhancement and redevelopment. The Group has also in place a portfolio-wide whole-life cycle maintenance programme as part of its ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK\$847 million (2015: HK\$414 million), including the payment of the construction costs of Lee Garden Three.

SHARE REPURCHASE

As part of Hysan's capital management strategy, the Group repurchased 12.59 million (2015: 6.75 million) of its own shares during 2016, which should further enhance shareholders' value, at an aggregate consideration of HK\$395 million (2015: HK\$215 million). The average purchase price per share was HK\$31.24 (2015: HK\$31.78).

Treasury Policy

MARKET HIGHLIGHTS

2016 was filled with uncertainties and unexpected outcomes that will have a significant impact on the years to come. The slowdown of China's economic growth was a major concern in 2016 and the spillover effect had global repercussions especially in the first half of the year. Although China met its target growth rate for 2016, uncertainty remains in 2017 as growth deceleration continues and the debt problem persists. Adding to these concerns are the U.K.'s direction of travel following the referendum vote for "Brexit", the upcoming elections in several European Union countries, and the expected shifts in U.S. economic and trade policy following the election of President Trump.

Although global economic growth continued to be weak in 2016, the U.S. economy showed signs of improvement. The Federal Reserve raised the federal funds rate in December 2016 and signalled further interest rate hikes to come during 2017. Despite changes in U.S. monetary policy, the central banks of the Eurozone and Japan have maintained ultra-low interest rates. Nevertheless, the Hong Kong interest rate outlook will be affected largely by that of the U.S.

CAPITAL STRUCTURE MANAGEMENT

The 3-month HKD Hibor increased from around 0.4% in 2015 to around 1.0% at the end of 2016. Despite the increase in Hibor, the Hong Kong bank loans market continued to have ample liquidity as the credit margin of bank loans for companies with investment grade credit ratings declined moderately in 2016 as compared with 2015.

The outstanding gross debt¹ of the Group increased to HK\$6,305 million (2015: HK\$4,875 million) at year-end 2016, after debt repayment of HK\$250 million and new drawdown of HK\$1,680 million for general funding purposes during the year. All the outstanding borrowings are on an unsecured basis. The Group also arranged a new HK\$500 million committed facility in 2016, which remained undrawn as at year-end 2016.

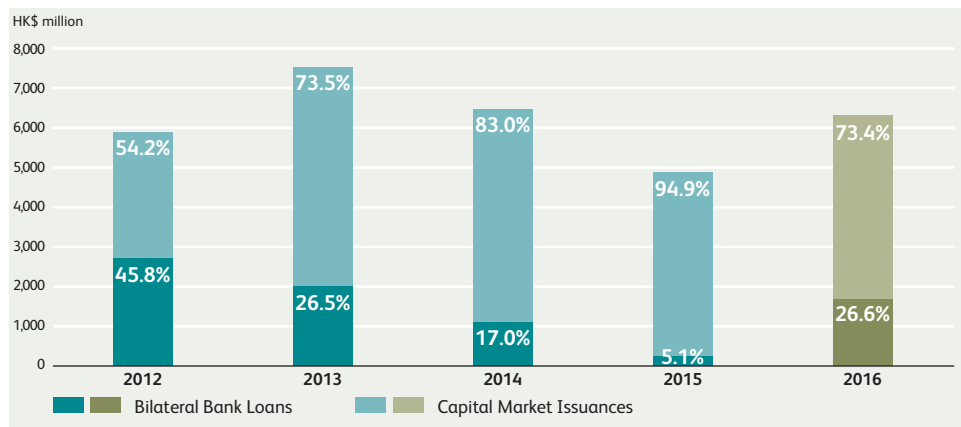
The Group always strives to lower the borrowing margin, to diversify the funding sources and to maintain a suitable maturity profile relative to the overall use of funds. Because of the new bank loans in 2016, debts sourced from the capital market decreased to 73.4% (2015: 94.9%) at year-end of 2016. The Group continued to maintain long-term relationships with a number of local and overseas banks in order to diversify the funding sources. At year-end 2016, seven local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

¹ The gross debt represents the contractual principal payment obligations at 31 December 2016. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2016, the book value of the outstanding debt of the Group was HK\$6,293 million (31 December 2015: HK\$4,859 million).

Management's Discussion and Analysis

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

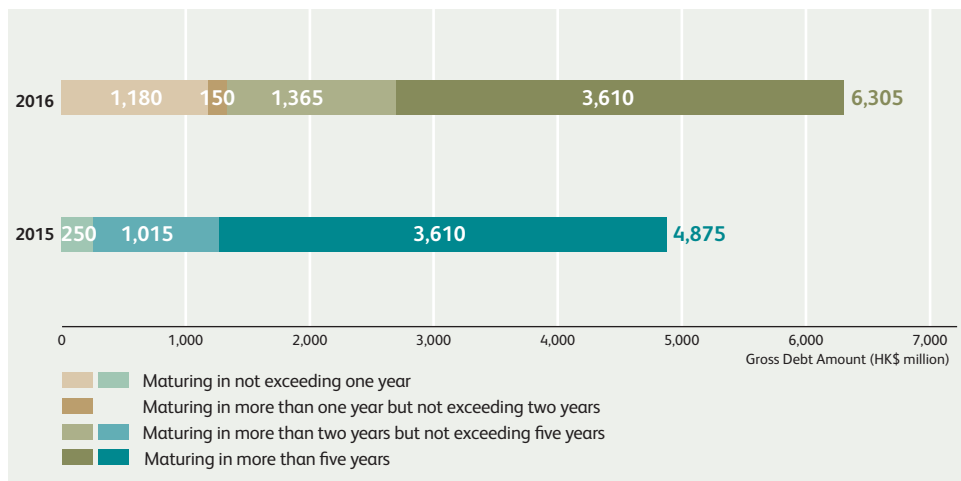
Sources of Financing at Year-end



The Group also strives to maintain an appropriate debt maturity profile. As at 31 December 2016, the average maturity of the debt portfolio was about 4.3 years (2015: 6.3 years), of which about HK\$1,180 million or 18.7% of the outstanding gross debt will be due in less than one year. With ample liquidity in the bank loans market, established relationship with various banks and the investment-grade credit rating, the Group expects to refinance the maturing loans in 2017 without significant refinancing pressure.

The graph below shows the debt maturity profile of the Group at year-end 2016 and 2015.

Debt Maturity Profile at 2016 and 2015 Year-end

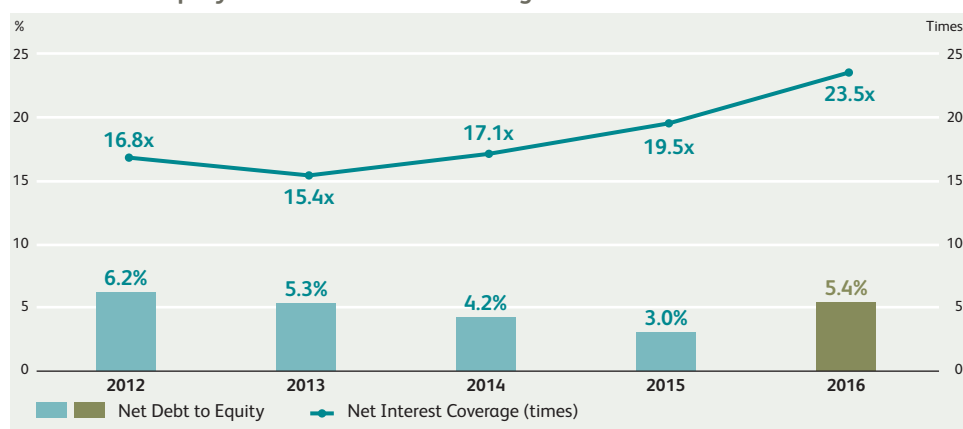


As part of Hysan's capital management strategy, the Group completed repurchases of 12.59 million (2015: 6.75 million) shares through the Hong Kong Stock Exchange in 2016, which would further enhance shareholders' value. Reflecting the stable recurring cash flows from our business, the Group maintained investment-grade credit ratings of A3 as rated by Moody's and BBB+ as rated by Standard and Poor's.

The Group's gearing ratio, as measured by Net Debt to Equity ratio¹, increased to 5.4% at year-end of 2016 (2015: 3.0%), mainly due to a new drawdown in 2016. The Group's Net Interest Coverage² further improved to 23.5 times for 2016 (2015: 19.5 times) as cash inflow from the business remained strong. The low gearing and strong ability to meet interest payments reflected the Group's resilience and capability to raise further debt if there is any need.

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

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



LIQUIDITY MANAGEMENT

As at 31 December 2016, the Group had cash and bank deposits totalling about HK\$2,630 million (2015: HK\$2,804 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. In order to preserve liquidity and enhance interest yields, the Group invested HK\$1,155 million (2015: HK\$1,350 million) in debt securities.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounted to HK\$500 million at year-end 2016 (2015: HK\$750 million), essentially allowing the Group to obtain additional liquidity as the need arises.

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

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

Management's Discussion and Analysis

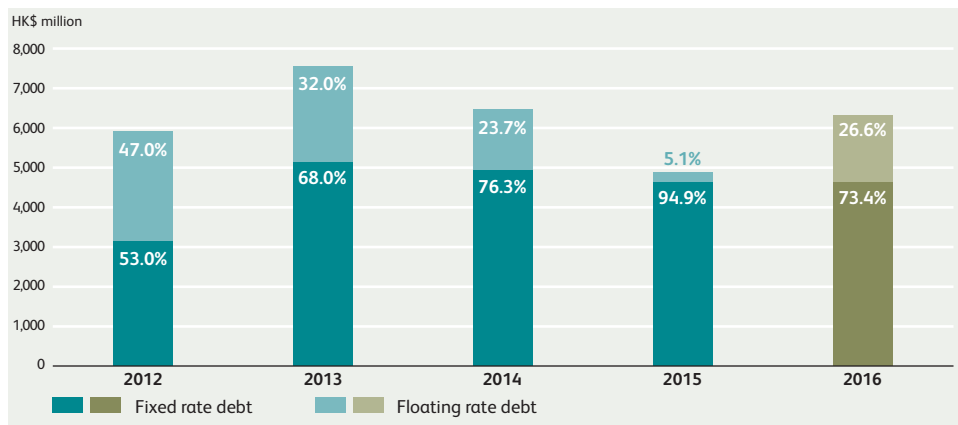
INTEREST RATE MANAGEMENT

Appropriate hedging strategies, if necessary, are adopted to manage exposure to projected movements in the interest rate. Bank loans generally carry lower interest rate as compared with medium term notes. As a result of less bank loans during 2016, the average cost of finance increased slightly to 3.8% in 2016 as compared with 3.5% in 2015.

The fixed debt ratio decreased to 73.4% at year-end 2016 from 94.9% at year-end 2015 following new borrowing of HK\$1,680 million bank loans during 2016. As the U.S. has entered the interest rate normalisation cycle, the Group believes that interest rates will rise in coming few years. We expect the current fixed debt ratio allows the Group to weather the risk of an interest rate hike cycle.

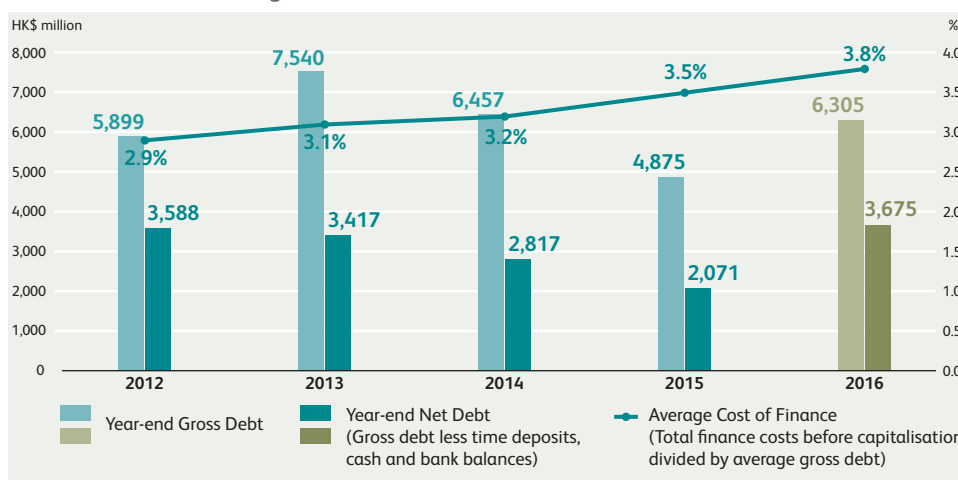
The diagram below shows the fixed rate debt and floating rate debt portions in the past five years.

Fixed Rate Debt and Floating Rate Debt Portions



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

Debt Levels and Average Costs of Finance



FOREIGN EXCHANGE MANAGEMENT

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

On the investment side, the Group's outstanding foreign currency balances in cash, time deposits, and debt securities amounted to US\$180 million (2015: US\$160 million) and RMB55 million (2015: RMB135 million), of which US\$98 million (2015: US\$93 million) and RMB55 million (2015: RMB135 million) were hedged by foreign exchange forward contracts.

Other foreign exchange exposure mainly relates to investments in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK\$3,497 million (2015: HK\$3,683 million) or 4.4% (2015: 4.7%) of total assets.

USE OF DERIVATIVES

As at 31 December 2016, outstanding derivatives were mainly related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or adjust the appropriate risk profile of the Group's treasury assets and liabilities.

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

Risk Management and Internal Control Report

Responsibility

Our Board of Directors has the overall responsibility to ensure that sound and effective risk management and internal control systems are maintained, while management is responsible for designing and implementing risk management and internal control systems to manage risks. Sound and effective systems of risk management and internal control are designed to identify and manage the risk of failure to achieve business objectives.

Our Risk Management and Internal Control Framework

The Board is responsible for the Group's risk management and internal control systems and for reviewing their effectiveness. The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management, and the internal control systems. The Audit Committee, acting on behalf of the Board, oversees the following process:

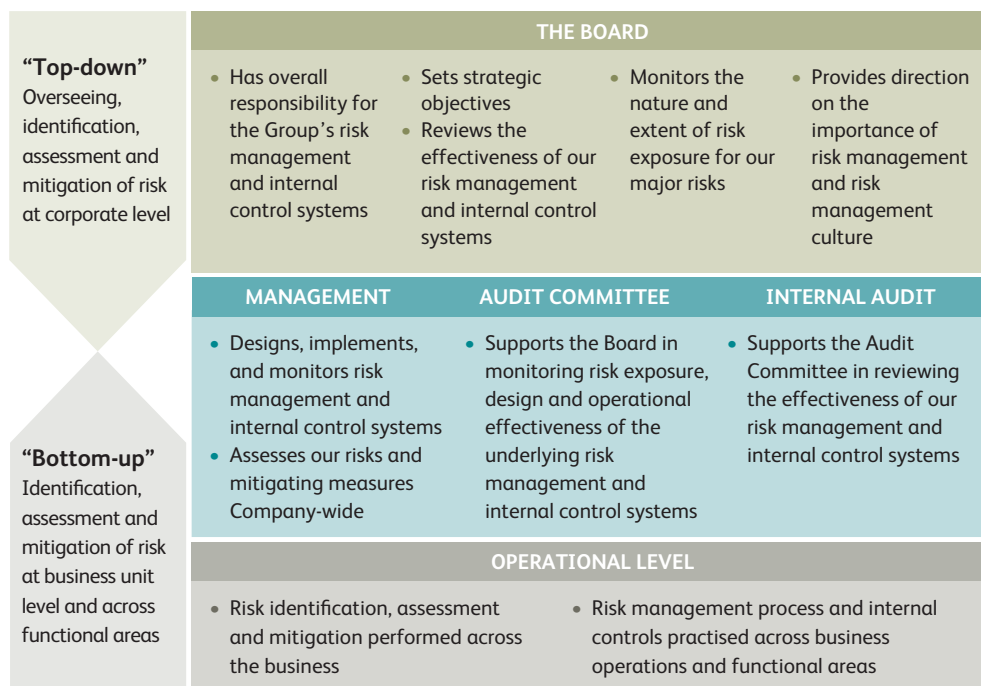
- (i) regular reviews of the principal business risks, and control measures to mitigate, reduce or transfer such risks; the strengths and weaknesses of the overall risk management and internal control systems and action plans to address the weaknesses or to improve the assessment process;
- (ii) regular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

The Audit Committee will then report to the Board after due review of the effectiveness of the Group's risk management and internal control systems.

The Board considers the work and findings of the Audit Committee in forming its own view on the effectiveness of the systems.

(Please also see "Audit Committee Report" on page 121 regarding the Committee's detailed review work, including the forms of "assurance" received from management, external auditor, and internal auditor).

Hysan Risk Management Framework



2016 Review of Risk Management and Internal Control Effectiveness

In respect of the year ended 31 December 2016, the Board, with confirmation from management, considered the risk management and internal control systems effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the review, the Board also considered the resources, qualification/experience of staff of the Group’s internal control, accounting and financial reporting function, and their training and budget were adequate.

Hysan’s Risk Management and Internal Control Model and Continuous Improvement in our Systems

Our risk management and internal control model is based on that set down by the Committee of Sponsoring Organisations of the U.S. Treadway Commission (“COSO”) for internal control, and has five components, namely Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. In developing our risk management and internal control model based on the COSO principles, we have taken into consideration our organisational structure and the nature of our business activities.

Risk Management and Internal Control Report

Since 2012, we have put in place a phased improvement plan and progressed to further enhance our risk management and internal control systems. The initial phase of the plan focused on adopting a more risk-based (instead of process-based) approach to risk identification and assessment. This approach enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives. Management reporting to the Audit Committee has also been enhanced, including the presentation of special reports on selected risk topics.

In the current phase, we aim to further integrate risk management and internal control into our business processes, including into annual budgeting and planning. The COSO framework has been revised, effective December 2013. Instead of treating this as a framework-update exercise, a holistic approach has been adopted, taking into consideration the Company's circumstances, including its ongoing risk management and internal control improvement plan as well as other strategic initiatives. (e.g. corporate social responsibility strategy and reporting). All these further our ultimate objective of making our risk management system a "living" one that is practised on a day-to-day basis by operating units.

- **Control Environment** – this is very important as it sets the tone for risk management and internal control in a company. Hysan is a tightly-knit organisation with around 640 staff members. The actions of management and its demonstrated commitment to effective governance and control are therefore very transparent to all.

We have a strong tradition of good corporate governance and a corporate culture based on sound business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). In 2016, our "whistle-blowing" system was enhanced by adopting a separate "Whistleblowing Policy". The whistleblowers shall raise concerns to a designated independent third party who will report to the Audit Committee. We aim to build risk awareness and control responsibility into our culture and regard them as the foundation of our risk management and internal control systems.

- **Risk Assessment** – we continue to drive improvements to our risk management process and the quality of risk information generated, while at the same time maintaining a simple and practical approach. Instead of setting up a separate risk management department, we seek to have risk management features embedded within our operations (leasing, property management, and project) as well as functional areas (including finance, human resources, IT, and legal). We aim to have a "living" risk management system that is practised on a day-to-day basis by our operating units.

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

Management also forms a risk management committee (headed by the top management) which sets the relevant policies and monitors potential weaknesses and action items regularly. It is also responsible for identifying and assessing risks of a more macro and strategic nature, including emerging risks.

This “top-down” approach is complemented by the “bottom-up” aspects and the involvement of operating unit heads in identifying operational risks. These together determine the Group’s major risks. Discussion sessions with all department heads led by the top management have been held, with a view to further enhancing the “participatory” aspect of the overall risk assessment process.

- **Control Activities; Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews; segregation of duties; and physical controls. Over the past few years, we have been formalising and documenting the control processes in policies and procedures. Written policies and procedures with defined limits of delegated authority are in place, which facilitate effective segregation of duties and controls. A greater use of automation (information processing) is also being implemented.

The annual budgeting and planning process is one of our key control activities, which has been refined to take into consideration risk factors. All operating units prepare their respective operating plans pursuant to corporate objectives for consideration. In this process, they are required to identify material risks that may impact the achievement of their business objectives. Action items to mitigate the identified risks are developed for implementation as well as for finalising the budget and business objectives. An annual budget with financial targets, as approved by the Board, provides the foundation for the allocation of resources. Variance analyses are regularly performed, and reported to management and the Board. These help identify deficiencies and enable timely remedial actions to be taken.

Capital expenditures monitoring is also significant given the capital-intensive nature of our property business. Depending on strategic importance, cost / benefit and the size of the projects, detailed analysis of expected risks and returns is submitted to operating unit heads, Chief Financial Officer, Executive Directors or the Board for consideration and approval. The criteria for assessment of financial feasibility are generally based on net present value, payback period and internal rate of return from projected cash flow.

Management conducts an internal control self-assessment annually. All departments / units heads have to complete a relevant control self-assessment questionnaire and confirm to the management that appropriate internal control policies and procedures have been established and properly complied with.

- **Monitoring Activities** – the Board and Audit Committee oversee the process, assisted by our Internal Audit team. Management has enhanced its update reports to Audit Committee on movements on major risks and appropriate mitigating measures. There are three Audit Committee meetings annually, with one meeting substantially devoted to risk management and internal control system.

Further Strengthening of Our Underlying Systems

We have made further progress in strengthening our risk management and internal control system, highlighted as follows:

Control Environment – enhanced legal and regulatory compliance framework	
<ul style="list-style-type: none"> Further strengthened the legal and regulatory compliance framework and strategic foundation for a strong compliance management between legal department, business units, Management, Audit Committee and the Board. 	Continual review and refinement of processes and structures enhance compliance.
Risk Assessment – enhanced monitoring of “emerging risks”	
<ul style="list-style-type: none"> Further strengthened the monitoring of material risks and “emerging risks” (i.e. risks that are new or evolving, which have potentially significant impact even though the likelihood of their happening may not be certain). Management’s Risk Management Committee takes a key role in identifying and tracking these risks. The top management also led further discussions with all department heads. <p>Examples include social-political risks, economic risks, cybersecurity risk etc.</p>	In the context of a fast-changing global and local environment, the monitoring of “emerging risks” will be a focus.
Control Activities – policies and procedures	
<ul style="list-style-type: none"> Identified and implemented new policy to address the changing regulatory environment. For example, company guideline and procedure relating to handle and report data breach is refined and in place. It sets out clear internal procedures for the proper handling and reporting of a data breach incident. This signifies the importance we place on the business practices, which become more important in light of fast-changing regulatory requirements and enhanced stakeholder expectations. Company policy relating to the competition law is in place. Seminar has been held across department to educate and raise awareness of the staff. 	Continual review and refinement of policies and procedures in light of the changing external and internal environment.
Control Activities – Whistleblowing Policy	
<ul style="list-style-type: none"> Enhanced the “whistle-blowing” system by adopting a separate Whistleblowing Policy to allow whistleblowers to raise concerns to a designated independent third party who will report to the Audit Committee. 	Continual review and refinement of risk management and internal control and procedures for handling concerns raised by whistleblowers.
Monitoring – enhanced “management assurance” to the Audit Committee and the Board in their respective reviews	
<ul style="list-style-type: none"> Enhanced management update reports to Audit Committee and the Board on major risks the Group were facing, with deep dive reports on selected topics, e.g. risks management on the redevelopment of Lee Garden Three, safeguards against terrorist attack, etc. To further strengthen management’s “assurance” to Audit Committee and the Board, control self-assessment questionnaires were rolled out across all departments. Department heads were required to certify their departmental controls effectiveness including identifying any control issues. This in turn backs up management’s certification to Audit Committee and the Board. 	Facilitation and enhancement of the work of the Audit Committee and the Board in monitoring our risk exposure.

Way Forward

Embedding a “living” risk management and internal control systems within the day-to-day operation of our operating units is a continuous voyage. We are committed to continually improving our risk management and internal control framework and capabilities of the Group and shall continue on this path, with enhanced integration of risk management and internal control into our business processes.

Our Risk Profile

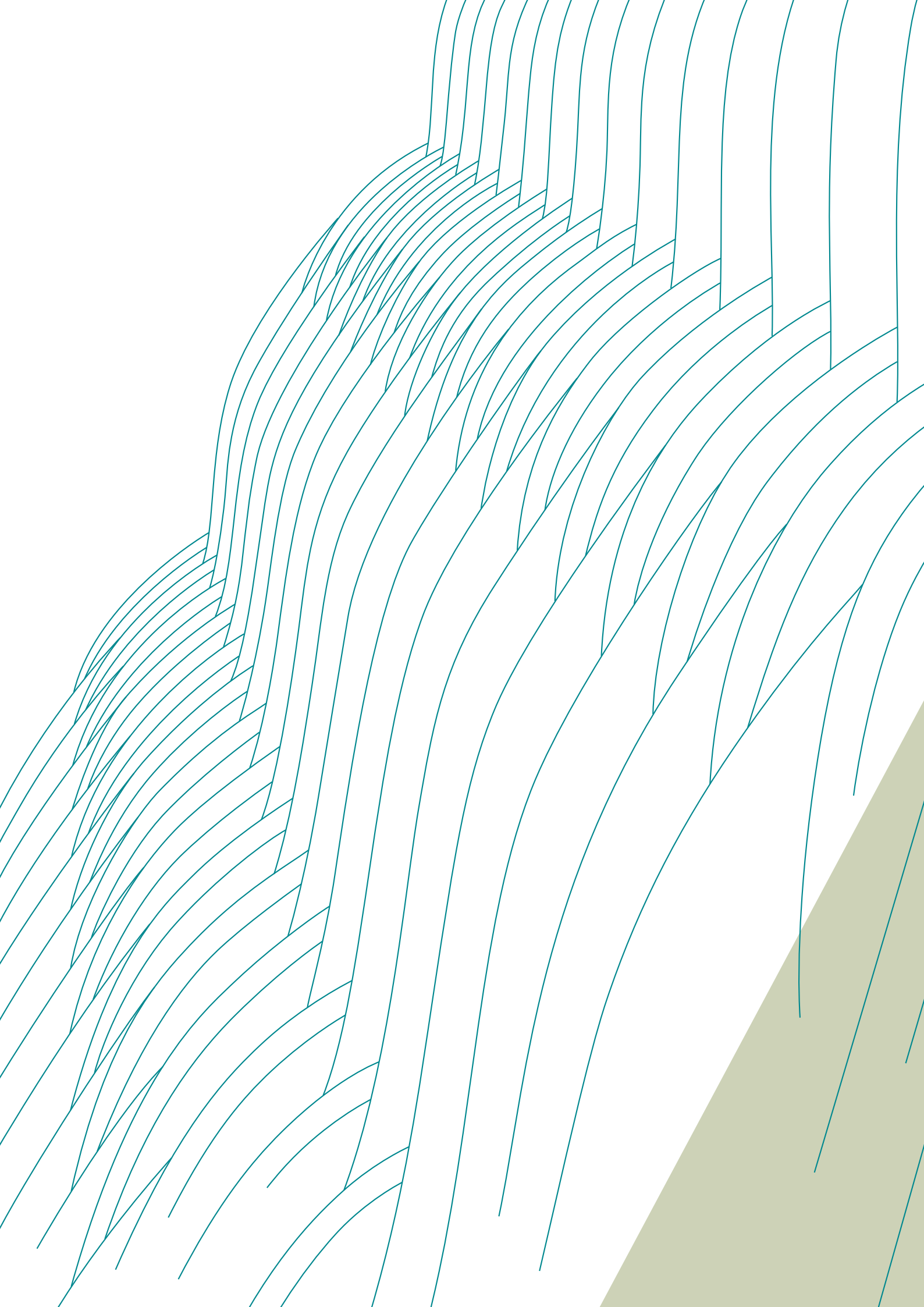
Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of our major risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk	Risk change during 2016	Description of risk change
Impact of macro-economic developments on:		
1. Office Leasing	↑	The office rental market on Hong Kong Island benefited from limited new supply and demand from China financial institutions. However, due to global economic headwinds, there was a drop in the overall demand for office spaces across the market. Also, lower rent in the non-core business areas and the new supply there has driven cost conscious tenants to move out of core areas.
2. Retail Leasing	↑	The retail market was challenging during 2016 as Hong Kong retail sales recorded a decline, resulting from a fall in the number of tourists and a downturn in local sentiment. The weak retail sales led to reluctance by retail tenants to expand their retail enterprises, shop numbers or footprints.
3. Residential Leasing	↑	Reduced demand from expatriates, higher market vacancy and keen competition continued to exert pressure on the luxury residential leasing market and higher vacancy at our property. > For more analysis and mitigating measures, see “The Marketplace” & “Review of Operations”
4. Projects	↔	Main building work for Lee Garden Three is on schedule towards its expected completion date in fourth quarter of 2017. > For more analysis and mitigating measures, see “Review of Operations”
5. Human Resources	↔	The service industry in Hong Kong continues to experience widespread labour shortages. Employers are facing increased competition for skilled personnel, especially experienced front-line staff, to support the Group’s growth strategy. > For more analysis and mitigating measures, see “Responsible Business” section – “Workplace Quality”

Note:

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

↔ where “inherent risks” remained broadly the same



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Business of Life

Sustainability Progress

2006 – 2016

Hysan Development's first Corporate Responsibility Report was published in 2006. This year's "Responsible Business" section is the 11th report we have produced focusing on our social and environmental efforts. We would like to take this opportunity to highlight how far we have come both in terms of achievements for our sustainability activities, and for reporting our initiatives and how we have implemented them.

As a "Business of Life", Hysan has steadfastly maintained our commitment to providing sustainable and outstanding returns for our shareholders, while also creating positive and visible changes for our stakeholders and the communities we serve. Above all, our sustainability progress would not have been possible without the contributions of our staff members, business partners and community neighbours. Thank you very much for all your help and we look forward to working with you all in the years to come.



Awards and Recognitions

Hysan's sustainability data collection began to take shape in 2005, but it was not until 2008 that we were recognised as one of the outstanding leaders in this increasingly important field with our inclusion in the internationally renowned FTSE4Good Index. We are proud to report that we are still a member of the Index in 2016. Since 2010, we have also been a constituent member of the Hang Seng Corporate Sustainability Index with an "AA" rating. Hysan's efforts have also been recognised by MSCI's Global Sustainability Index both with membership and an "AA" rating. Recently, the Group was also named one of the "Top 80 assessed stocks in the Hong Kong Quality Assurance Agency Sustainability Rating and Research".

Corporate Responsibility Policy

MAINTAIN HIGHEST ETHICAL STANDARDS

- We aim to maintain the highest ethical standards in the conduct of our business. We are committed to maintaining the highest standards of corporate governance

FOCUS ON HEALTH AND SAFETY

- Health and safety issues are of fundamental importance to us

MINIMISE ENVIRONMENTAL IMPACT

- We aim to minimise the impact of our activities on the environment

CONTRIBUTE TO COMMUNITIES

- We make positive contributions to the communities in which we operate

RESPECT OUR STAFF

- We treat our staff with fairness and respect, and maintain a working environment to realise their full potential

ENCOURAGE PARTNERS TO SET HIGH STANDARDS

- We encourage our suppliers and contractors to embrace high standards similar to our own

Policy Implementation

We strive to integrate our contribution to society into our core business operations and partnerships, and to provide expertise, manpower, venues and financial support to community projects. In 2016, we took this one step further and supported the establishment of Lee Gardens Association, a group with the aim of promoting the Lee Gardens area through various activities and events. For details about the Association, please see Page 65.

Environment

Environmental Policy

Hysan adopted an Environment, Health and Safety Policy in 2003 and made it public in 2006 as part of our first Corporate Responsibility Report. However, by 2014, there was a clear need to update the policy and provide more detailed and separate policies for environmental issues, as well as health and safety matters.

In the 2006 Report's environmental section, we stated that we aim generally for improvements in energy efficiency, waste reduction, and good indoor air quality maintenance.

The present Environmental Policy focuses more specifically on four major areas, namely:

1. carbon reduction efforts
2. waste reduction at source promotions
3. green purchasing enhancement, and
4. stakeholder engagement improvement

Under the Policy, Hysan will:

- Ensure compliance with all applicable environmental and related legislation and encourage staff, business partners and other stakeholders to meet their environmental obligations
- Identify environmental impacts associated with our operations, and set targets to continually improve our environmental performance
- Improve energy efficiencies by adopting best practicable designs and technologies without compromising service
- Measure and report our GHG emissions, and actively encourage our stakeholders to reduce their carbon footprint
- Minimise waste generation whenever practical in daily operations through source reduction and recycling
- Embrace green purchasing practices and adopt best practicable technologies to conserve natural resources where applicable
- Provide good indoor environmental quality in our buildings to ensure that all the work/living environments are healthy
- Provide regular environmental training to employees and continue to raise their awareness on the issues

Highlights of 2016

- Recognition: Lee Garden One Offices qualified as a finalist in the Hong Kong Green Building Award 2016
- Stakeholder Engagement: increased support for government-led environmental charters; shared experience at major local environmental events; organised more events and workshops for tenants and staff
- Energy Accounting System: installed systems at Lee Theatre Plaza and Lee Garden Six
- Waste Management: launched food waste recycling programme at Bamboo Grove

Energy Efficiency

ENERGY SAVINGS AND REDUCTION OF GREENHOUSE GAS EMISSIONS ACHIEVEMENTS: 2005 BASELINE AND FROM 2015 TO 2016

Issue		2005	2015	2016
GHG Emissions for Scope 1 & 2 ^{(a) (b)}	Total (tonnes CO ₂ e)	48,421	39,120	37,242
Purchased Electricity	Total (MWh)	52,598	49,502	47,724*

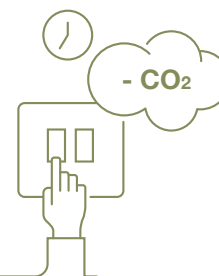
(a) According to Guidelines to account for Report on Greenhouse Gas Emissions and Removals for Buildings in Hong Kong (2010 Edition) issued by Electrical and Mechanical Services Department and Environmental Protection Department, Scope 1 (Direct emissions and removals e.g. diesel, refrigerant) and Scope 2 (energy indirect emissions e.g. electricity and Towngas) are included

(b) The emission associated with the electricity purchased based on emission factors provided by Hongkong Electric in 2016

* The data have been adjusted upwards (based on past consumption pattern) for periods with significant vacancy / during renovations

“ **Hysan achieved its target reduction in overall energy use in 2006 as compared to the previous year, without compromising service levels.**”

Page 9, Corporate Responsibility Report 2006



In our first year of reporting, we may not have been confident enough to provide data for public consumption. With the benefit of further environmental data collection (which we began in a comprehensive fashion in 2005), we realised we were heading in the right direction as far as energy savings were concerned.

Using 2005 as a baseline, it is clear that we reduced energy consumption by more than 9.2% by the end of 2016. Our 2016 GHG emissions and electricity purchased decreased by 4.8% and 3.6% respectively, as compared to 2015. These reductions were due partly to the successful implementation of our energy accounting system and other energy savings initiatives.

ENERGY ACCOUNTING SYSTEM AND OTHER ENERGY SAVINGS INITIATIVES

The second phase of our energy accounting system’s implementation is in progress. In total, five of our commercial buildings now benefit from the system, which measures and analyses energy consumption within each building as well as our major buildings as a whole. The availability of electricity consumption data on a real-time basis has made it much easier for us to monitor and control system usage. Hysan Place’s retail area air conditioning supply is a good example. With better monitoring and the enhancing of outdoor air supply control, we managed to fine-tune the operation schedule to optimise the supply, thus creating significant savings.

In addition, we continued our energy savings quest through the identification of locations where more energy efficient products, including energy efficient motors, T5 fluorescent tubes and LED lights, could be installed.

Environmental Quality

“ *Following recent concerns over airborne diseases and their potential for causing epidemics, we are redoubling our efforts to improve air quality.*”

Page 10, Corporate Responsibility Report 2006

Hysan’s focus on environmental quality was somewhat reactive, stemming mainly from the H5N1 Bird Flu cases in the early 2000s, and perhaps more acutely, the deadly SARS epidemic in 2003. A decade later, our building users’ demands, as well as the community’s expectations in regard to our buildings’ indoor environmental quality, and how these structures interact with their surroundings, have increased significantly.

GREEN BUILDING RECOGNITION AND CERTIFICATIONS

Lee Garden One’s office section is on course to obtain a BEAM Plus (Existing Buildings) Platinum Certification after its final assessment was submitted to the certifying body in November 2016. With Hysan Place also approaching its fifth anniversary, we looked at the feasibility of obtaining a BEAM Plus (Existing Buildings) certification for this renowned green commercial building. We then submitted a preliminary assessment towards the end of 2016, and we expect to receive the preliminary results in the first quarter of 2017.

We are also delighted that Lee Garden One’s office section was a finalist in the Hong Kong Green Building Council’s and the Professional Green Building Council’s Green Building Award 2016. We are proud of the fact that this 19-year-old building was honoured in the Existing Building Facilities Management category, and that our property management colleagues’ hard work was recognised.

Lee Garden Three, our new commercial building project to be completed in late 2017, is pursuing the highest level of the BEAM Plus (New Buildings) green standard, as well as U.S. Green Building Council’s LEED certification.

AIR QUALITY

All our buildings have continued to be recognised by the Hong Kong Government’s Indoor Air Quality Certification Scheme with “Excellent Class” or “Good Class” certifications.

We are redoubling our efforts to promote the use of electric vehicles to reduce urban pollution. For our forthcoming Lee Garden Three car park, all of the 200+ parking spaces will have electric sockets installed for such vehicles’ charging. This initiative further complements our existing electric sockets in Hysan Place, charging bays in Lee Garden One, Lee Garden Two and Leighton Centre, as well as the Tesla Motors Superchargers in Lee Garden One car park.

URBAN MICROCLIMATE AND BIODIVERSITY

Lee Garden Three will debut in late 2017 with a partial green roof, which will help to reduce the building’s heat island effect and improve the district’s microclimate. In regard to biodiversity, one part of the new building will see a “Butterfly Garden” with plant species that attract adult butterflies, other flora that are ideal to host larvae or protect against predators, as well as a good water source.

Meanwhile, Hysan Place’s rooftop Urban Farm and its Sky Wetland are also contributing to these causes, while carrying on their green education roles.

Waste Management, Recycling and Water Consumption

“ We are committed to re-using and recycling waste, and are actively involving our commercial and residential tenants in eliminating wastage.”

Page 10, Corporate Responsibility Report 2006



By 2006, Hysan was already active in promoting recycling among its tenants. However the scale of our work then would be dwarfed by our recycling efforts in 2016. One of our highest profile activities in 2016 was the launching of our food waste recycling programme in Bamboo Grove, our residential project. Our new food recycling process aims to reduce the amount of waste to be disposed of at landfills. More than 30 families in the Mid-Levels complex joined the programme within the first two months of its unveiling. This initiative complements the well-run food waste collection service provided in Hysan Place’s food court and other restaurants in the mall.

In 2016, Hysan’s commercial and residential buildings were awarded another full set of “Class of Excellence” Wastewi\$e labels under the Government’s Hong Kong Green Organisation Certification Scheme. This compared well with our 2006 efforts, when we received only three top Wastewi\$e labels.

LEE GARDEN THREE PROJECT’S RECYCLING

The foundation works of the Lee Garden Three project was completed in early 2016, and its super-structure construction commenced in February 2016. In 2016, close to 66% of the construction waste made during the foundation and ongoing superstructure construction work, including around 2,900 tonnes of metal and 445 tonnes of timber, were recycled. This was significantly higher than the original 60% recycling target.

WASTE MANAGEMENT ACHIEVEMENTS (EXCEPT CONSTRUCTION WASTE) 2005 BASELINE AND FROM 2015 TO 2016

Issue	2005	2015	2016
Paper recycled (kg)	741,502	975,329	1,008,651
Aluminium cans recycled (kg)	1,098	2,708	2,909
Plastic bottles recycled (kg)	1,529	3,042	3,297
Old clothing donation (kg)	960	3,895	3,448
Toner/Cartridge recycled (pcs)	206	216	109
Computer and equipment recycled (pcs)	100	82	27
Food waste recycled (kg)	–	29,871	26,696
Glass bottles recycled (kg)	–	4,215	15,100

Hysan has been expanding the type of recyclables we collect. In addition to paper, aluminium cans, plastic bottles, old clothing, toner/cartridge, computer equipment, glass bottles and food waste, we added used fluorescent lamps and rechargeable batteries to the list late in 2016. We have also been registered as a chemical waste producer at Hysan Place and Lee Garden One due to our used fluorescent lamps collection and recycling.

WATER MANAGEMENT ACHIEVEMENTS 2005 BASELINE, AND FROM 2015 TO 2016

Issue	2005	2015	2016
Potable water used for properties and landscaping (m ³)	62,665	73,231	69,079
Potable water used for cooling (m ³)	–	181,572	179,155*
Wastewater reused for flushing (m ³)	–	18,157	17,916*
Wastewater discharged from properties and landscaping (m ³)	56,399	65,908	62,171

* The data have been adjusted upwards (based on past consumption pattern) for periods with significant vacancy / during renovations

We have made significant effort in cutting down total potable water use in recent years, and in 2016, we used 2.6% less, as compared to 2015. Our water saving devices, as well as our staff's mindset to conserve water, proved to be effective in our day-to-day operations. This was also aided by record-breaking rainfall in the autumn of 2016, which cut down on our water use for plant watering. Hong Kong also saw a heat wave during the summer of 2016, but that did not translate into more water usage for the portfolio's air-conditioning system, which saw a 1.3% decline, as compared to 2015. The reduction of usage was due partly to our application of energy savings measures in Hysan Place, thus saving a significant amount of cooling water.

Green Procurement

“ *We are updating our cleaning contract specifications so that the appropriate items and practices can be used.*”

Page 10, Corporate Responsibility Report 2006

Our green procurement ideas were in their infancy back in 2006, but by the time we completed Hysan Place in 2012, we had already developed a green mindset through using local materials for construction. Our new Lee Garden Three project is still on course to use materials extracted or manufactured locally for 10% of the total materials by value. We also actively procure and use more green products and services throughout our operations, including at least 50% of environmentally-friendly cleansing agents for our buildings.

We are also in discussion with a social enterprise to install one or more filtered water dispensers in our public and office areas with an aim to promote the reduction in disposable plastic water bottle use.

Green Partnerships with Stakeholders

“ On our stakeholders’ front, we have issued a guideline for tenants on fitting out their offices. Upon request, we perform indoor air quality measurements for them.”

Page 10, Corporate Responsibility Report 2006



Hysan has come a long way since 2006 in regard to green partnerships. Our efforts now focus on contacts with four main groups of stakeholders:

- Government Bureau and Departments
- Tenants, Visitors and the General Public
- Staff Members
- Green Organisations

GOVERNMENT INITIATIVES

In addition to an existing number of energy saving and recycling initiatives that Hysan supports, the following new charters and schemes were added in 2016:

- Environment Bureau’s Post-COP 21 Green Building Engagement (4% energy savings target in three years)
- Environment Bureau’s Charter on External Lighting
- Environmental Protection Department’s Rechargeable Batteries Recycling Scheme
- Environmental Protection Department’s Food Waste Source Separation, Collection and Delivery to Organic Waste Treatment Facilities Phase One (our commitment to join the programme starting in Q1 2017)

TENANTS, VISITORS AND THE GENERAL PUBLIC

Four years after its unveiling, our Urban Farm on the rooftop of Hysan Place remains a major green attraction for visitors and tenants alike. The farming sessions were heavily oversubscribed throughout 2016. For more details, please refer to the “Environmental Issues and Healthy Living Promotions” section of “Community Contributions” in Page 66. We continued to support the Redress’ EcoChic Design Award to encourage less apparel production and reduce wastage through an exhibition at Hysan Place. We also continued to support Greeners Action’s Lai See Packets recycling programme to promote the reusing of these lucky packets during Chinese New Year.

As per shoppers’ request, we added three sets of recycling bins in Hysan Place and Leighton Centre in 2016. Leveraging on the Lee Gardens Office Plus platform, we hosted two green living workshops for Office Plus members, who are staff of our office tenants, and received positive feedback from those who took part.

Our Environmental Affairs Manager shared her experiences of green building management with the general public on several occasions during 2016. She was interviewed by Metro Radio after Hysan won the World Green Organisation’s Sustainable Business Award. She also spoke at the Jockey Club CarbonCare Open Innovation Lab’s “Zero Carbon Hong Kong Inno Day: Sustainable Living 2016”, as well as at Friends of the Earth’s “Achieving Zero Waste Practices through Urban Farming”.

STAFF ENGAGEMENT

Hysan's Go Green Committee again took the lead in bringing green issues to the attention of our own staff members. In addition to the second-hand clothing drive, which was in its second year of operation, the Committee took 25 colleagues and their family members to visit Hongkong Electric's Lamma Power Station to learn about the latest initiatives in power generation. It also organised an upcycling workshop for one of our "Lunch and Learn" sessions in 2016.

The Committee helped to launch a series of "Go Green" labels to remind colleagues and visitors to conserve resources, with the labels being adopted in our Head Office as well as in all of our buildings' common areas. Environmental news and tips are now disseminated to staff members through our intranet's "Do you know that?" section.

GREEN ORGANISATIONS

Hysan remains a strong partner of a number of green organisations through actual participation or sponsorships. Among the projects we supported in 2016 were:

- World Wide Fund for Nature's Earth Hour
- Business Environment Council's BEC EnviroSeries Conference
- Green Sense's No Air Con Night
- Greeners Action's Lai See Packets Recycling
- Jockey Club CarbonCare Open Innovation Lab's "Zero Carbon Hong Kong Inno Day: Sustainable Living 2016"
- Friends of the Earth's "Achieving Zero Waste Practices through Urban Farming"
- Hong Kong Environmental Protection Association's Wood Recycling and Tree Conservation Scheme
- Hong Kong Green Building Council and Professional Green Building Council's Green Building Award 2016

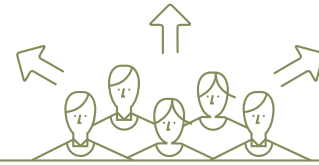


Workplace Quality

Staff Composition

“ As at 31 December 2006, Hysan had a total workforce of 492.”

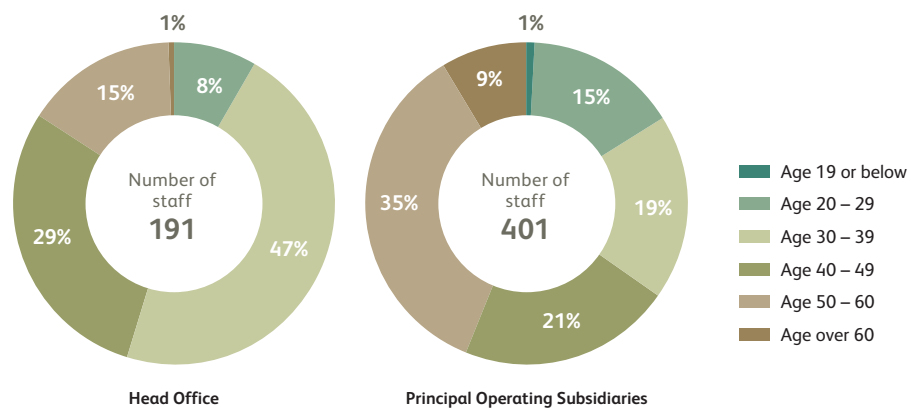
Page 13, Corporate Responsibility Report 2006



As at 31 December 2016, Hysan employed a total of 592 staff, including our Head Office team and principal operating subsidiaries' colleagues. All our staff members are located in Hong Kong.

185 of our staff members, including 44 out of 74 Head Office Managers or above, are women.

Age Group of Staff



In the past decade, we have built and grown a team of experts who have strong knowledge of the retail, office and residential fields. We have also created a working environment in which these employees can make use of their resourcefulness, professionalism, teamwork and swift action to deliver a unique and satisfying experience to our customers.

Code of Ethics

Our Code of Ethics highlights the main Hysan principles:

- Respect for people
- Ethics and business integrity
- Meeting our responsibilities

The Code applies to Directors, officers and employees of the Group, and is clearly communicated to all, including new staff members. It covers a range of topics, including data privacy, protection of copyright, anti-bribery and anti-fraud. The Code also has in place a “whistle-blowing system”, as monitored by an independent third-party service provider directly reporting to the Audit Committee Chairman.

Human Resources Policies

“ *In general, we have built transparent procedures and appropriate checks-and-balances into our hiring, disciplinary, grievance, and other key human resources processes, thereby reinforcing our aim to be a fair employer.*”

Page 13, Corporate Responsibility Report 2006

Since 2006, we have further refined our Employment and Staff Policy, which deals with recruitment, employee movement, salary adjustments and promotions, separation of employment, and equal opportunities (non-discrimination against gender, marital status, disability, age, race, family status, sexual orientation, nationality and religion). The Policy is complemented by the Code of Ethics as stated in the section above. In 2016, we did not identify any material non-compliance or breach of legislation related to equal opportunities.

Hong Kong is our home base, and the site of our core operations. We believe we do not operate in an environment that carries high risks for child labour or forced labour. We did not identify any breach in the said areas in 2016.

We respect the right of association, and ensure our employees enjoy the freedom to join trade unions. We did not identify any material breach of any right to exercise freedom of association and freedom to join trade unions in our core operations in 2016.

Our management strongly emphasises the need to maintain a clear and constructive dialogue with staff members on company issues, even though we do not have an official collective bargaining policy, nor are we a party to a collective bargaining agreement. We maintain comprehensive written policies on compensation, work hours, staff benefits, staff training, health and safety, as well as grievance mechanisms. For details on our other channels of communication, please refer to the “Employee Engagement” section on Page 62.

Training and Development

The major 2016 training programmes for Head Office and Principal Operating Subsidiaries colleagues included:

- Project management workshops
- Language training for retail and office staff
- Customer service training for finance staff
- Seminars on latest ordinance changes (e.g. fraud risk management, competition law)
- Enhancement of training curriculum for Principal Operating Subsidiaries colleagues (including customer service, grooming, and language workshops for frontline staff, coaching workshops for supervisors)

For 2016, Hysan provided an average of 12.2 hours of training per Head Office staff, and 15.8 hours of training per Principal Operating Subsidiaries’ employee.

Our training efforts paid off in 2016, when Hysan Property Management Limited was awarded a Customer Service Certificate of Merit by the Hong Kong Retail Management Association’s Hong Kong Awards for Industries.

Attracting and Retaining Talent

“ *The recruitment and staffing process ensures that talents are exhaustingly identified from both internal and external sources, with the ultimate goal of giving staff maximum opportunities to grow and develop at Hysan.*”

Page 13, Corporate Responsibility Report 2006

We have continued to develop a comprehensive system of attracting and retaining talent. Our employee turnover figures were 25.4% for our Head Office staff, and 17.1% for our Principal Operating Subsidiaries' employees. These figures were higher than the Hong Kong property sector turnover rate of 16.8% (sourced from a Towers Watson survey), and we are looking into ways to make improvements in this respect.

We started a Summer Internship Programme in 2016, with an aim to provide a pipeline of talents for our forthcoming Management Trainee Programme in 2017. It is also to help gain fresh insights and different business perspectives from students who may suggest innovative solutions to energise our business. Our two summer interns worked jointly on a business project during the six-week programme.

The Management Trainee Programme will focus on developing talented university graduates with high potential to become the future business leaders of Hysan. A familiarisation programme will be followed by extensive on-the-job experience at designated business functions.

Employee Engagement

Our U.S.E. idea awards continued to recognise the provision of unique and satisfying experiences by our staff members to our stakeholders. A total of 14 U.S.E. idea awards and 3 Best U.S.E. idea awards were granted during the year. Project leads were assigned to execute the winning ideas, and the progress of the projects were shared with all staff on the intranet. Among the best ideas were ones to upgrade dining experience at Hysan Place's Kitchen 11, and to provide future events and activities ideas in outdoor areas.

Separately, the U.S.E. Ambassador programme recognises top U.S.E. behaviours among frontline staff. A total of 9 U.S.E. Ambassadors and 11 Merit Awards were presented, and their stories also shared on the intranet.

The Company Day provided another opportunity for senior management members to exchange views with staff members both on the previous year's work and the coming year's expectations. Around 200 staff members took part in the latest edition of this annual event.

Health and Safety

Health and Safety Policy

Hysan's first Environment, Health and Safety Policy was established in 2003 and was made public in 2006 as part of the first Corporate Responsibility Report. The 2014 revision separated the health and safety section from the environment section.

The 2006 Report's health and safety section highlighted our determination to take these issues very seriously for the sake of our employees, customers and the communities in which we operate. We also explained our need to consistently review and refine the health and safety management system, as well as our employees' safety training. Finally, we acknowledged the importance of a response plan to deal with possible outbreaks of contagious diseases.

The present policy focuses on the provision and maintenance of a safe and healthy environment within Hysan's portfolio for all staff, tenants and members of the general public. The Group will:

- Ensure health and safety standards are given prime consideration in the operation and management of our properties, for which a Safety Management Plan to ensure regulatory compliance has been developed
- Ensure employees at every level are committed to, and accountable for, the delivery of the safety initiatives contained in this Plan, with a view to maintaining a vigorous and injury-free culture
- Provide employees with appropriate induction and external/internal training, as well as protective equipment in accordance with established procedures
- Encourage staff to engage actively in the Plan and to exceed and improve upon the safety measures that have been set
- Mandate our contractors, who are equally responsible for establishing their own organisational structure, work processes, supervision and training, to avoid or minimise risks to health and safety, particularly in the services which they provide to us
- Conduct regular reviews on the Health and Safety Policy so that it reflects changes in the products, services and activities of the Company
- Raise further awareness through the use of third-party health and safety experts to conduct regular safety audits

Health and Safety in Action

“ *As a responsible employer, we take full account of our health and safety obligations towards our stakeholders.* ”

Page 11, Corporate Responsibility Report 2006



Within the Group's structure, the Property Services division takes the lead in the coordination of health and safety matters, as their members account for around 70% of our total staff headcount and most have frontline roles. The General Manager of Property Services chairs our Safety Committee, which oversees the implementation of the Health and Safety Policy on a day-to-day basis, and regularly reports back to senior management. Safety procedures are recorded on a Safety Management Plan. One round of third-party safety audit took place in 2016 for all Hysan buildings. No significant irregularities were found.

Health and Safety

Our staff members clocked more than 3,360 hours of safety training in 2016.

The nature of our business, mainly in property management, means that our health and safety risk profile is comparatively low. However, our frontline staff, inevitably, still experience minor accidents, and there were 26 work injury cases at Hysan in 2016, the majority of which did not incur more than five sick leave days. There were 1,070.5 lost days due to work injury, including 790 days brought forward to 2016 from 2013, 2014 and 2015, as well as 280.5 days from a 2016 case.

Our care for health and safety extends beyond our staff's physical well-being. Our Employee Assistance Programme provides counseling services, which are operated by a non-governmental organisation on our behalf. There was an unfortunate case of a customer's death within one of our shopping malls during 2016. Counselors from the Programme gave invaluable psychological help to ease the concerns of several staff members immediately after the incident and for a period of time afterwards.

Health and Safety: Our Partners

“ *We also request that our contractors, especially those in the construction industry dealing with our Hennessy Centre (later renamed Hysan Place) redevelopment project, provide us with method statements on how they are to complete their work, including the precautionary means to protect themselves and others from work-related harm.*”

Page 11, Corporate Responsibility Report 2006

In 2016, we demanded even more from our contractors to ensure they observe very high standards of health and safety requirements similar to our own. During the year, safety consultants conducted one round of safety audits for the Lee Garden Three development project. The audit looked into the contractor's safety management system, with a focus on plant and equipment, subcontractors' control, and safety work procedures implementation. The consultants also made recommendations for further safety enhancements. The audit's result was satisfactory. There were three minor work-related injuries at the Lee Garden Three site in 2016.



Community Contributions

Supporting the setup of Lee Gardens Association

“ In Hysan’s first Corporate Responsibility Report, we proudly showcase “Music in the Green City”, a concert-cum-street carnival presented and sponsored by Hysan”

Page 14, Corporate Responsibility Report 2006



Back in 2006, Hysan already understood the need to place community work high on the corporate responsibility agenda. “Music in the Green City” was one of our earliest attempts to cooperate with Wanchai District Council, as well as with Hong Kong artistic groups to bring both green and arts/culture messages to the streets of Lee Gardens.

In an effort to encourage the Lee Gardens area stakeholders to join forces and further enliven the community, Hysan took the lead in establishing an area association by the name of “Lee Gardens Association” (LGA). LGA’s aim is to create a unified community of businesses with the purpose of promoting Lee Gardens Area to local Hong Kong consumers and overseas visitors through events, activities, and generally improving the local environment. It also provides a platform for its retail/food and beverage services, enabling members to share views and engage government departments and the local District Council. LGA’s ultimate wish is to ensure the sustainable growth of the Lee Gardens area.

In the second half of 2016, LGA successfully hosted a number of events and attracted tens of thousands of visitors to the streets of Hysan Avenue, Pak Sha Road and Lan Fong Road.

Sep	Oct	Nov	Dec
<p>Wellness 360 Fair played host to more than 30 vendors and performing units, which served thousands of participants with wellness products, food and drinks, as well as fitness performances and dances.</p>	<p>Hong Kong Tennis Open’s Fanzone was held on Pak Sha Road, in cooperation with Wanchai District Council’s Cultural & Leisure Services Committee and Hong Kong Tennis Association. Visitors enjoyed two afternoons of live TV transmission of top quality tennis matches, as well as a host of tennis-themed fun and games.</p>	<p>Art Fun in Causeway Bay’s Night Parade again mesmerised tens of thousands of people lined up on the Lee Gardens streets. One of Hong Kong’s most creative giant puppet parades, and a part of Standard Chartered Arts in the Park Mardi Gras, the Night Parade used William Shakespeare’s A Midsummer Night’s Dream as its theme in 2016. Even the pre-event short plays and media promotion attracted considerable public attention.</p>	<p>Wellness 360 Xmas Fair and Charitable Choice’s Colour for Charity Carnival brought much Christmas cheer to Hysan Avenue and Pak Sha Road. LGA co-presented both of these family-friendly activities, which were very well-received.</p>

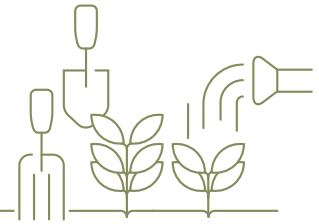


Community Contributions

LGA also played host to a number of history tours of the area, which were co-organised by Wanchai District Council's Cultural and Leisure Services Committee, Hong Kong Architecture Centre, and the Conservancy Association Centre for Heritage. It is hoped that the tours will help share more information about Causeway Bay and Lee Gardens area's treasured past with the public.

Environmental Issues and Healthy Living Promotions

“ While each party contributed its unique skills to the successful partnership (for “Music in the Green City”), Hysan provided the leafy venue, as well as the professional and financial support to make it all happen.”



Page 14, Corporate Responsibility Report 2006

Surrounded by several leafy venues, Hysan Place remained one of Hong Kong's best known green commercial buildings, and 10 organisations visited its Urban Farm in 2016. The rooftop farming programme continued to be oversubscribed. 311 urban farmers representing 50 companies grew organic vegetables successfully on this most improbable farm in the heart of Hong Kong's busiest commercial district.

450 children and their parents took part in our educational Green Wonders programme, which we operated in coordination with green enterprise, Smiley Planet. We also trialed Green Birthday Parties for youngsters to celebrate their special day, and we ensured the parties had an educational twist.

Throughout October, Hysan's portfolio showcased its connection with one of Causeway Bay's most popular sporting events: the Prudential Hong Kong Tennis Open. A top women's tennis tournament attracting some of the world's best known players, it inspired a very popular VR game in Hysan Place's atrium. Tennis-themed activities, including the sale of



personalised tennis balls for charity, as well as visits by Caroline Wozniacki and Jelena Jankovic, put Lee Gardens in the sporting and healthy living spotlight. We are planning to follow up the sports theme with the sponsorship of another major local sporting event in 2017.

Our annual “Hysan Healthy Hike and Run” remained a top trail event on the competition calendar for runners. The 2016 event was well-supported by 1,400 participants, including dozens of our own colleagues. Their determination to push themselves to the limit was further highlighted by two teams taking part in Oxfam’s 100km Trailwalker event, including several colleagues new to the sport.

Arts and Culture Development Promotions

“ *We have offered the free use of venues in our portfolio, and we will facilitate the posting of publicity materials for non-profit organisations within our retail malls.*”

Page 14, Corporate Responsibility Report 2006

Hysan’s support for community groups through the use of venues for arts and culture development has expanded significantly since 2006. Several of the arts and culture events supported by Hysan adopted an environmental theme in 2016. Food Angel’s Canstruction 2016 attracted plenty of attention from mall-goers in the summer, when it promoted the reduction of food waste through an amazing display of canned food statues. Green Power’s Butterfly exhibition and the Nature Conservancy public engagement programmes both twinned green issues with artistic presentations. UNICEF’s 30th Anniversary exhibition used art pieces to highlight the plight of young refugees and underprivileged children throughout the world. Finally, Art with the Disabled Hong Kong and Premiere Performances of Hong Kong graced Hysan Place’s stage with popular musical events.



Community Contributions

Other Venue Support

Below is a list of other community activities that took place at Hysan's venues in 2016:

<p>Jan</p> <p>—</p> <p>Hong Kong Science and Technology Parks "Let's Shape a Brighter Future Together" Roadshow</p>	<p>Feb</p> <p>—</p> <p>St. James' Settlement "Valentines Flower Charity Sale"</p> <p>—</p> <p>Helping Hand "Cookie Campaign Launching Ceremony"</p>	<p>March</p> <p>—</p> <p>Helping Hand "Cookie Campaign Charity Sale"</p> <p>—</p> <p>Lok Sin Tong "Charity Candy Sale"</p> <p>—</p> <p>Redress "The Ecochic Design Award 2015/2016 Exhibition"</p>
<p>May</p> <p>—</p> <p>Hong Chi Association "Charity Cookie Sale"</p> <p>—</p> <p>Oxfam Hong Kong "Rice Charity Sale"</p>	<p>June</p> <p>—</p> <p>Hong Kong Association of Banks "Youth Financial Education Programme 2016 Launch Ceremony"</p>	<p>August</p> <p>—</p> <p>Habitat for Humanity "Education and Membership Recruitment Event"</p>
<p>September</p> <p>—</p> <p>Senpha "Annual Award 2016" Painting Exhibition</p> <p>—</p> <p>WWF Hong Kong "Public Engagement Programme"</p> <p>—</p> <p>Leisure and Cultural Services Department "The Hong Kong Women's Choir Performance"</p>	<p>October</p> <p>—</p> <p>Walk 21 Conference "Welcome Reception"</p> <p>—</p> <p>Hong Kong Tennis Association/TVB Press Conference "Hong Kong Tennis Open"</p>	<p>November</p> <p>—</p> <p>Haven of Hope Christian Service "Charity Cookie Sale"</p> <p>—</p> <p>Hong Kong Red Cross "Charity Sale"</p> <p>—</p> <p>Hong Kong PHAB Association "Raffle Ticket Sale"</p> <p>—</p> <p>Hong Kong Institute of Architects "Public Lectures"</p>





Our Volunteer Team

“ *Hysan encourages its volunteers team to contribute to the community whenever possible.*”

Page 14, Corporate Responsibility Report 2006

Hysan’s volunteer team is now very well-organised, and our colleagues contributed 780 hours of their time for volunteer service in 2016. Another 241 hours were also recorded as contributions by their friends and families taking part in Hysan activities. 11 events took place during the year.

The organisations Hysan partnered included:

- Fair Trade Hong Kong Foundation
- Hong Kong Movie Star Sports Association Charities Limited
- Hong Kong Society for the Protection of Children
- Music Children Foundation
- Oxfam Hong Kong
- SAHK
- St. James’ Settlement
- Young Artists Development Foundation

Hysan was a Gold Award for Volunteer Service winner. The programme was organised by the Steering Committee on Promotion of Volunteer Service of the Social Welfare Department.



The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide

A. ENVIRONMENTAL	Reference in “Responsible Business” Section
A1 Emissions	
<ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes 	<ul style="list-style-type: none"> “Environment – Environmental Policy” “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption” Not aware of any material non-compliance
<ul style="list-style-type: none"> KPI A1.1 Types of emissions and respective emissions data 	<ul style="list-style-type: none"> “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A1.2 Greenhouse gas emissions in total and intensity 	<ul style="list-style-type: none"> “Environment – Energy Efficiency”
<ul style="list-style-type: none"> KPI A1.3 Total hazardous waste produced and intensity 	<ul style="list-style-type: none"> We do not generate a material amount of hazardous waste.
<ul style="list-style-type: none"> KPI A1.4 Total non-hazardous waste produced and intensity 	
<ul style="list-style-type: none"> KPI A1.5 Description of measures to mitigate emissions and results achieved 	<ul style="list-style-type: none"> “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved 	<ul style="list-style-type: none"> “Environment – Waste Management, Recycling and Water Consumption”
A2 Use of resources	
<ul style="list-style-type: none"> Policies on efficient use of resources like energy, water and other raw materials 	<ul style="list-style-type: none"> “Environment – Environmental Policy”
<ul style="list-style-type: none"> KPI A2.1 Direct and/or indirect energy consumption by type in total and intensity 	<ul style="list-style-type: none"> “Environment – Energy Efficiency”
<ul style="list-style-type: none"> KPI A2.2 Water consumption in total and intensity 	<ul style="list-style-type: none"> “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A2.3 Description of energy use efficiency initiatives and results achieved 	<ul style="list-style-type: none"> “Environment – Energy Efficiency”
<ul style="list-style-type: none"> KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved 	<ul style="list-style-type: none"> “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A2.5 Total packaging material used for finished products 	<ul style="list-style-type: none"> Not applicable
A3 The environment and natural resources	
<ul style="list-style-type: none"> Policies on minimising the issuer’s significant impact on the environment and natural resources 	<ul style="list-style-type: none"> “Environment – Environmental Policy”
<ul style="list-style-type: none"> KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them 	<ul style="list-style-type: none"> “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption”

B. SOCIAL

Reference in “Responsible Business” Section

Employment and Labour Practices**B1 Employment**

- | | |
|---|--|
| <ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare | <ul style="list-style-type: none"> “Workplace Quality – Human Resources Policies” Not aware of any material non-compliance |
| <ul style="list-style-type: none"> KPI B1.1 Total workforce by gender, employment type, age group and geographical region | <ul style="list-style-type: none"> “Workplace Quality – Staff Composition” |
| <ul style="list-style-type: none"> KPI B1.2 Employee turnover rate by gender, age group and geographical region | <ul style="list-style-type: none"> “Workplace Quality – Staff Composition” |

B2 Health and safety

- | | |
|---|--|
| <ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards | <ul style="list-style-type: none"> “Health and Safety – Health and Safety Policy” Not aware of any material non-compliance |
| <ul style="list-style-type: none"> KPI B2.1 Number and rate of work-related fatalities | <ul style="list-style-type: none"> No fatality |
| <ul style="list-style-type: none"> KPI B2.2 Lost days due to work injury | <ul style="list-style-type: none"> “Health and Safety – Health and Safety in Action” |
| <ul style="list-style-type: none"> KPI B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored | <ul style="list-style-type: none"> “Health and Safety – Health and Safety in Action” |

B3 Development and training

- | | |
|--|--|
| <ul style="list-style-type: none"> Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities | <ul style="list-style-type: none"> “Workplace Quality – Training and Development” For 2016, the training ranged from customer service for non-frontline colleagues to project management workshops |
| <ul style="list-style-type: none"> KPI B3.1 The percentage of employees trained by gender and employee category | <ul style="list-style-type: none"> “Workplace Quality – Training and Development” |
| <ul style="list-style-type: none"> KPI B3.2 Average training hours completed per employee by gender and employee category | <ul style="list-style-type: none"> “Workplace Quality – Training and Development” |

B4 Labour standards

- | | |
|---|---|
| <ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour | <ul style="list-style-type: none"> “Workplace Quality – Human Resources Policies” We believe our property investment and management business (primarily in Hong Kong) has a very low risk profile on use of forced or child labour. We are not aware of any material non-compliance with applicable provisions. We are against the use of forced or child labour. |
| <ul style="list-style-type: none"> KPI B4.1 Description of measures to review employment practices to avoid child and forced labour | <ul style="list-style-type: none"> Not applicable |
| <ul style="list-style-type: none"> KPI B4.2 Description of steps taken to eliminate such practices when discovered | <ul style="list-style-type: none"> Not applicable |

Operating Practices**B5 Supply chain management**

- | | |
|---|--|
| <ul style="list-style-type: none"> Policies on managing environmental and social risks of the supply chain | <ul style="list-style-type: none"> “Health and Safety – Health and Safety Policy”; “Health and Safety – Health and Safety: Our Partners” “Environment – Environmental Policy”; “Environment – Highlights of 2016” (covered stakeholder engagement) |
|---|--|

The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide

B. SOCIAL	Reference in “Responsible Business” Section
<ul style="list-style-type: none"> • KPI B5.1 Number of suppliers by geographical region 	<ul style="list-style-type: none"> • “Environment – Green Procurement” (With regards to the development of Lee Garden Three, we plan to use materials extracted and manufactured locally for around 10% of total materials value.)
<ul style="list-style-type: none"> • KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored 	<ul style="list-style-type: none"> • “Health and Safety – Health and Safety: Our Partners” • “Environment – Green Procurement”
B6 Product responsibility	
<ul style="list-style-type: none"> • Information on policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress 	<ul style="list-style-type: none"> • “Health and Safety – Health and Safety Policy” • “Workplace Quality – Code of Ethics”, which covers data privacy • Not aware of any material non-compliance
<ul style="list-style-type: none"> • KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons 	<ul style="list-style-type: none"> • Not applicable
<ul style="list-style-type: none"> • KPI B6.2 Number of products and service related complaints received and how they are dealt with 	<ul style="list-style-type: none"> • Our “Service Scan” highlights customer complaint and request handling. For each service, the service levels are stated, each with an accompanying KPI and monitoring methodology.
<ul style="list-style-type: none"> • KPI B6.3 Description of practices relating to observing and protecting intellectual property rights 	<ul style="list-style-type: none"> • “Workplace Quality – Code of Ethics”, which covers protection of copyrights
<ul style="list-style-type: none"> • KPI B6.4 Description of quality assurance process and recall procedures 	<ul style="list-style-type: none"> • “Service Scan” details standard service levels and their related KPIs and methods of measurement. It is used regularly to measure tenants’ satisfaction levels for service improvements.
<ul style="list-style-type: none"> • KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored 	<ul style="list-style-type: none"> • “Workplace Quality – Code of Ethics”
B7 Anti-corruption	
<ul style="list-style-type: none"> • Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering 	<ul style="list-style-type: none"> • “Workplace Quality – Code of Ethics”, which covers anti-bribery • Not aware of any material non-compliance
<ul style="list-style-type: none"> • KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases 	<ul style="list-style-type: none"> • No such cases
<ul style="list-style-type: none"> • KPI B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored 	<ul style="list-style-type: none"> • “Workplace Quality – Code of Ethics”, which covers our whistle-blowing
Community	
B8 Community Investment	
<ul style="list-style-type: none"> • Policies on community engagement to understand the community’s needs where the issuer operates and to ensure its activities takes into consideration of communities’ interests 	<ul style="list-style-type: none"> • “Corporate Responsibility Policy”
<ul style="list-style-type: none"> • KPI B8.1 Focus areas of contribution 	<ul style="list-style-type: none"> • “Corporate Responsibility Policy” • “Community Contributions”
<ul style="list-style-type: none"> • KPI B8.2 Resources contributed 	<ul style="list-style-type: none"> • “Community Contributions”

“Comply or explain” provisions
 Recommended disclosures

Corporate Responsibility Reporting Verification Statement

Third-party Independent Verification



VERIFICATION STATEMENT

Scope and Objective

Hong Kong Quality Assurance Agency ("HKQAA") conducted an independent verification of the Responsible Business Section of the Annual Report of Hysan Development Company Limited ("Hysan"). The contents of the Responsible Business Section articulate Hysan's commitments and progress on sustainability for the period of 1st January 2016 to 31st December 2016.

The aim of this verification is to provide a reasonable assurance on the completeness and accuracy of the information stated in the Responsible Business Section, which is the 11th report that Hysan produced focusing on social and environmental efforts and prepared in accordance with the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") issued by the Hong Kong Stock Exchange.

Methodology

The process applied in this verification was based on the International Standard on Assurance Engagement 3000 (Revised) – "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board.

The verification process included reviewing of relevant documentation, interviewing responsible personnel with accountability for preparing the reporting contents and verifying the selected representative sample of data and information. Raw data and supporting evidence of the selected samples were thoroughly examined.

Independence

HKQAA was not involved in collecting and calculating data, or in the development of the reporting contents. HKQAA's activities are independent from Hysan.

Conclusion

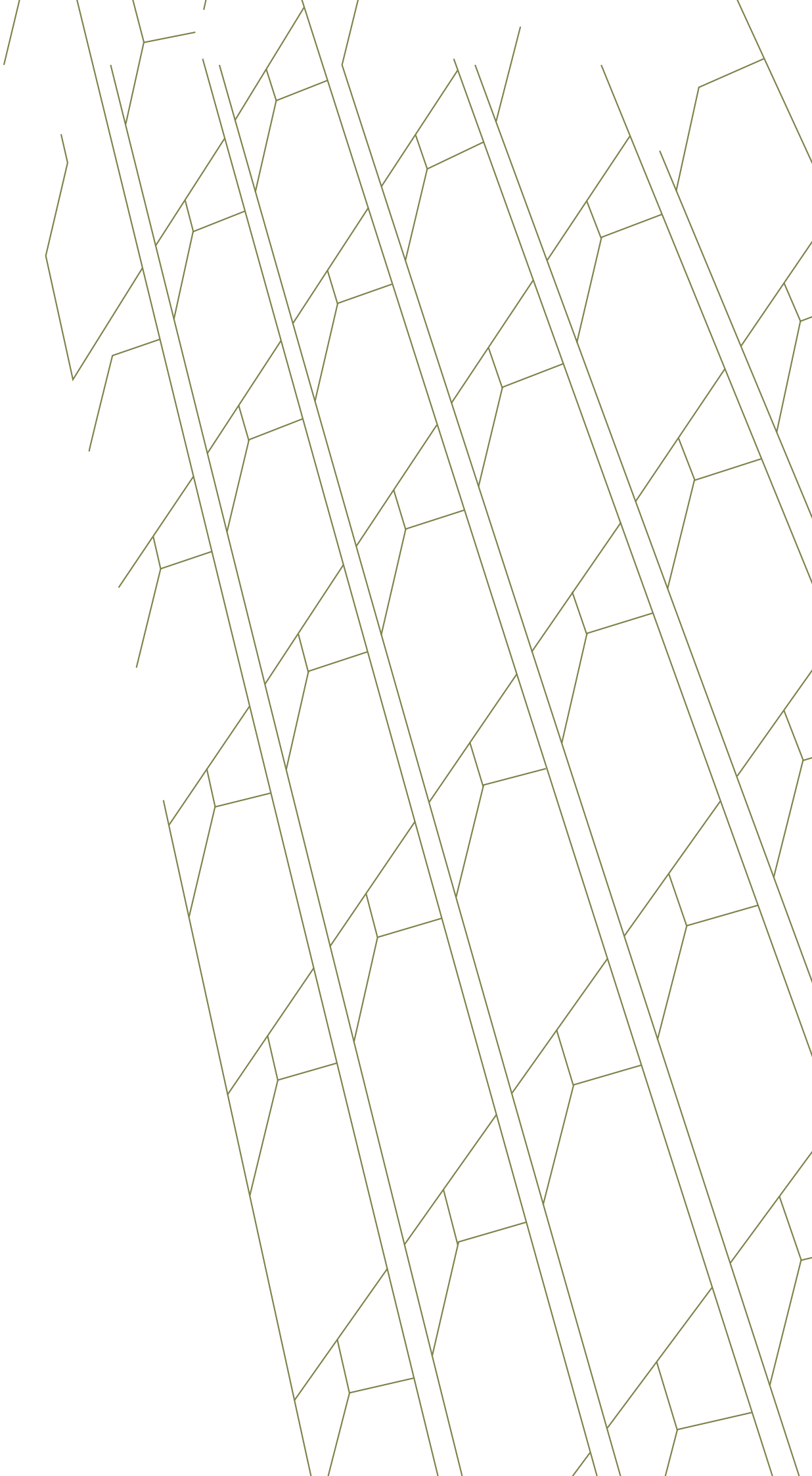
HKQAA confirms that the contents stated within the Responsible Business Section of Hysan's Report are accurate and reliable. The key performance indicators specified in the ESG Reporting Guide has been clearly addressed with substantial evidence supported. The information and data outlines in the Responsible Business Section are structured, balanced, consistent and credible in all material respects.

Hysan maintains a thorough and effective mechanism to engage with its stakeholders. Also, material aspects are systematically identified and suitably highlighted in the Report. Besides, the Report confidently channels Hysan's continuing commitments and ceaseless efforts towards conserving the environment, upholding decent workplace quality and contributing to the community.

In conclusion, it is HKQAA opinion that the Responsible Business Section provides a transparent disclosure of Hysan's sustainability performance of 2016 in a responsive, fair and truthful manner that gives stakeholders with a glance of valuable and understandable information.

Signed on behalf of Hong Kong Quality Assurance Agency

Connie Sham
Head of Audit
February 2017

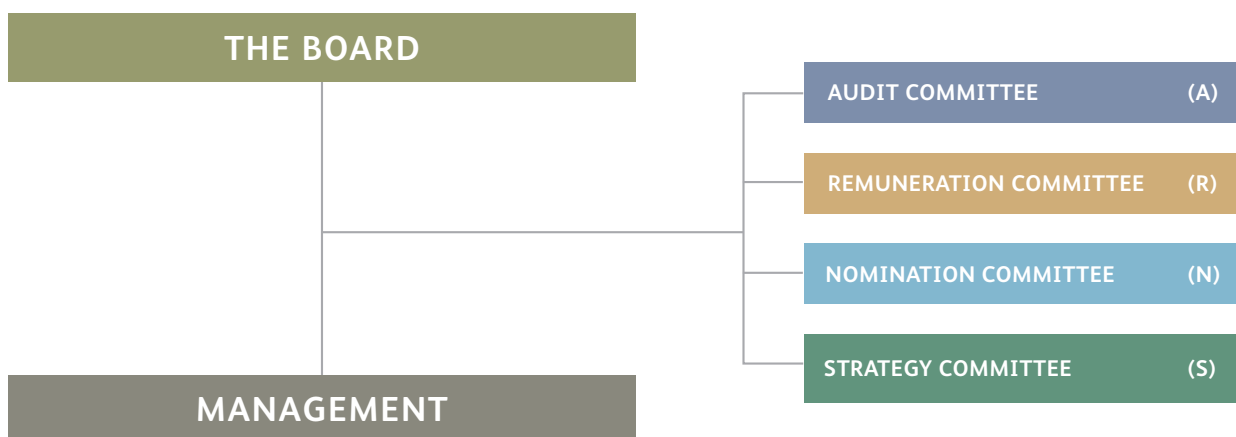


4 Corporate Governance

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- 81 Corporate Governance Report
- 102 Directors' Report
- 111 Directors' Remuneration and Interests Report
- 121 Audit Committee Report

Board of Directors

Hysan believes that embracing strong governance is the foundation to delivering on its strategic objective of consistent and sustainable performance over the long term. At the heart of Hysan’s governance structure is an effective Board that is committed to upholding strong governance principles and to reinforcing Hysan’s long-established and deeply engrained corporate governance tradition and culture of accountability, transparency and integrity.



Chairman (chairing N, S)
Irene Yun Lien LEE

Ms. Lee leads the Group in her executive Chairman role. Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, CLP Holdings Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited and Noble Group Limited (listed on Singapore Exchange Limited). She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee was an executive director of Citicorp Investment Bank Limited in New York, London and Sydney; head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney. She was also the non-executive chairman of Keybridge Capital Limited (listed on Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited, and The Myer Family Company Pty Limited; and a member of the Advisory Council of JP Morgan Australia. Ms. Lee was formerly a member of the Australian Government Takeovers Panel. She is a member of the founding Lee family, sister of Mr. Anthony Hsien Pin LEE (Non-Executive Director) and his alternate on the Board. Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray’s Inn, United Kingdom. She was appointed a Non-Executive Director in March 2011, Non-Executive Chairman in May 2011, and executive Chairman in March 2012. She also serves as a director of certain subsidiaries of the Group. She is aged 63.



Independent Non-Executive Director (A)

**Frederick Peter
CHURCHOUSE**

Mr. Churchouse has been involved in Asian securities and property investment markets for more than 30 years. Currently, he is a private investor including having his own private family office company, Portwood Company Ltd. He is an independent non-executive director of Longfor Properties Co. Ltd. He is also the publisher and author of "The Churchouse Letter". In 2004, Mr. Churchouse set up an Asian investment fund under LIM Advisors. He acted as a director of LIM Advisors and as Responsible Officer until the end of 2009. Prior to this, Mr. Churchouse worked at Morgan Stanley as a managing director and advisory director from early 1988. He acted in a variety of roles including head of regional research, regional strategist and head of regional property research. He was also a board member of Macquarie Retail Management (Asia) Limited. Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand. He was appointed an Independent Non-Executive Director in December 2012 and is aged 67.



Independent Non-Executive Director (A, N, S, chairing R)

Philip Yan Hok FAN

Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited and PFC Device Inc., and an independent director of Goodman Group. He is a member of the Asia Advisory Committee of AustralianSuper Pty Ltd (a pension fund in Australia). He was previously an independent non-executive director of HKC (Holdings) Limited and Guolian Securities Co., Ltd, and an independent director of Suntech Power Holdings Co., Ltd. (under official liquidation) and Zhuhai Zhongfu Enterprise Co. Ltd. Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from Massachusetts Institute of Technology. He was appointed an Independent Non-Executive Director in January 2010. He is aged 67.



Independent Non-Executive Director (N)

Lawrence Juen-Yee LAU

Professor Lau is currently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. He serves as Chairman of the Board of Directors for The Chinese University of Hong Kong (Shenzhen) Finance Institute, aka Shenzhen Finance Institute. He is also an independent non-executive director of AIA Group Limited, CNOOC Limited and Far EasTone Telecommunications Co., Ltd. (listed on the Taiwan Stock Exchange).

Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley. He joined the faculty of the Department of Economics at Stanford University in 1966, and had a long and distinguished career there. Upon his retirement in 2006, he became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, he served as Chairman of CIC International (Hong Kong) Co., Limited, a subsidiary of China Investment Corporation. Professor Lau was also a non-executive director of Semiconductor Manufacturing International Corporation.

Professor Lau is a member of the 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Sub-committee. He also serves as a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, Chairman of its Governance Sub-committee and member of its Currency Board Sub-committee and Investment Sub-committee, Vice-Chairman of Our Hong Kong Foundation and a member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company. He was appointed a Justice of the Peace in July 2007 and awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region. He was appointed an Independent Non-Executive Director in December 2014. He is aged 72.

Board of Directors



Independent Non-Executive Director (R, N, S, chairing A)
Joseph Chung Yin POON

Mr. Poon is group managing director and deputy chief executive officer of a private company and an independent non-executive director of AAC Technologies Holdings Inc. He was formerly managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited, a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce. Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors. He was appointed an Independent Non-Executive Director in January 2010. He is aged 62.



Non-Executive Director
Siu Chuen LAU

After serving as the Company's Deputy Chairman and Chief Executive Officer for 4 years (May 2012 – August 2016), Mr. Lau has been re-designated as Non-Executive Director with effect from the conclusion of the Board meeting of the Company held on 2 August 2016. Earlier, he has worked as the acting Head of Finance of the Company in 1999, was appointed a Non-Executive Director in May 2011 and Non-Executive Deputy Chairman in March 2012. He has also worked as a brand manager of French luxury products, management consultant at McKinsey & Company and consumer analyst at Morgan Stanley Asia. He subsequently co-founded and became a Responsible Officer of a SFC licensed investment advisory firm. Mr. Lau is a member of the founding Lee family and an alternate director of Lee Hysan Company Limited, a substantial shareholder of the Company. Mr. Lau holds a Bachelor of Social Sciences Degree in Management and Economics from The University of Hong Kong, and a Master of Business Administration Degree from INSEAD, France. He is aged 58.



Non-Executive Director (S)
Hans Michael JEBSEN
B.B.S.

Mr. Jebesen is chairman of Jebesen and Company Limited as well as a director of other Jebesen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. He was appointed a Non-Executive Director in 1994 and is aged 60.



Non-Executive Director (A)
Anthony Hsien Pin LEE

Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also a non-executive director of Television Broadcasts Limited. Mr. Lee is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company). He is the brother of Ms. Irene Yun Lien LEE, Chairman. Mr. Lee received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong. He was appointed a Non-Executive Director in 1994 and is aged 59.



Non-Executive Director (N, S)
Chien LEE

Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and a number of private companies. He was previously an independent non-executive director of Television Broadcasts Limited. He is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company). Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University. Mr. Lee was appointed a Non-Executive Director in 1988 and is aged 63.



Non-Executive Director (R)
Michael Tze Hau LEE

Mr. Lee is currently a director of Oxer Limited, a private investment company. He is also an independent non-executive director of Chen Hsong Holdings Limited, Trinity Limited; and a Steward of The Hong Kong Jockey Club. He was previously an independent non-executive director of Hong Kong Exchanges and Clearing Limited and an independent non-executive director and chairman of OTC Clearing Hong Kong Limited. Mr. Lee was also a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company). He joined the Board in January 2010, having previously served as a Director from 1990 to 2007. Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University. He is aged 55.

Board of Directors

Senior Management

Chief Operating Officer

Ricky Kon Wai LUI

MBA, MCIOB

Mr. Lui joined Hysan as the Group's Chief Operating Officer in December 2016. He assists the Chairman in translating and executing the Group's strategy and vision into operational and financial attainment. Mr. Lui also drives the Group's business growth, development and investment and serves as a director of certain Hysan's subsidiaries. Mr. Lui has over 25 years of experience as a senior executive in the property industry globally, covering acquisitions, development and asset management for residential, office, retail and large scale mixed use developments in Hong Kong, mainland China and overseas. He is aged 51.

Chief Financial Officer

Roger Shu Yan HAO

BBA (Hons), CPA, ACA, ACCA

Mr. Hao is responsible for the Group's financial control, treasury, information technology, legal and secretarial functions, and serves as a director of certain Hysan's subsidiaries. He joined the Group in 2008. Mr. Hao accumulated extensive experience in auditing, financial management and control while holding senior positions in multinational corporations. He is aged 51.

Director, Projects

Sunny Wing Chung CHAN

BEng (Hons), CEng, MCIBSE, MHKIE, LEED™ AP, BEAM Pro

Mr. Chan is responsible for the Group's development and project management function in regard to major property investments as well as significant refurbishment projects, and serves as a director of certain Hysan's subsidiaries. He joined the Group in 2008. Mr. Chan accumulated extensive experience in developing, designing and managing high-quality and sustainable building projects while holding senior positions in property development corporations. He is aged 51.

Director, Retail and Marketing

Kitty Man Wai CHOY

BEcon, MSc, MBA

Ms. Choy is responsible for the Group's retail portfolio and marketing strategies, and serves as a director of certain Hysan's subsidiaries. She joined the Group in 2000 and prior to joining Hysan, Ms. Choy held a supervisory position at a major property development company. She is aged 44.

Director, Office and Residential

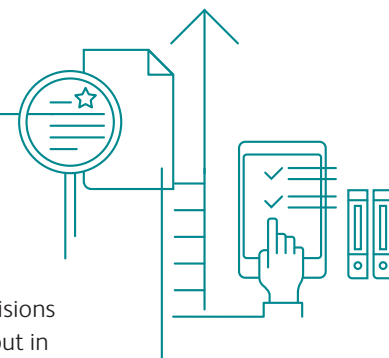
Jessica Mo Ching YIP

BSc (Surveying), MBA, MRICS, MHKIS, RPS

Ms. Yip is responsible for managing the office and residential portfolio of the Group, and serves as a director of certain Hysan's subsidiaries. Prior to joining the Group in 2012, Ms. Yip fulfilled various roles in international consultancies, occupiers and developers. She had extensive experience in the real estate industry. She is aged 40.

Senior management are Executive Directors and the personnels as set out in "Senior Management" section.

Corporate Governance Report



Meeting and Exceeding Compliance Requirements

Hysan is committed to maintaining high standards of corporate governance and transparency. Hysan has continued to fully comply with requirements of the Code Provisions contained in the Corporate Governance Code (the “Corporate Governance Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the year.

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

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	The Board has established formal Corporate Governance Guidelines* since 2004.
✓	The Board has established formal mandates and responsibilities*, with a clear division of roles with management. This sets out the Board’s responsibility for formulation of strategy and its monitoring role.
✓	The Board has established formal criteria and requirements* for Non-Executive Director appointments. All Non-Executive Directors are engaged by formal letters of appointment with a specific term of 3 years and which address the expected time commitment of the Non-Executive Directors and other matters.
✓	In order to retain control of key decisions and ensure there is a clear division of responsibilities for the Board and the running of the Company’s business, the Board has identified a list of “Matters Reserved for Board Decisions” *. The list covers all major policies and directions of the Group.
✓	Board evaluation: Since 2014, the Board evaluation process has been strengthened and enriched through completion of evaluation questionnaires. In 2016, the evaluation process was enhanced through an electronic platform. Directors’ feedback was analysed and discussed at the May Board Meeting. Our Corporate Governance Guidelines have been refined in the light of this to show the Board’s commitment.
✓	In 2016, a separate “Whistleblowing Policy” * has been adopted to allow employees and related parties who deal with the Group (e.g. consultants, contractors and suppliers) to raise concerns about misconduct, malpractice or irregularities in any matters related to the Group. The independence is further strengthened by inviting whistleblowers to raise concerns to a designated independent third party, who then reports to the Audit Committee. Records of whistle blowing are kept by Internal Audit Department.
✓	The Group has adopted a Code of Ethics* since 2005 which is applicable to all Directors, officers and employees of the Group. The Code of Ethics follows the guiding principles of “Respect for People”, “Ethics and Business Integrity” and “Meeting the Group’s Responsibility”. Under the Code of Ethics, the Directors, officers and employees are encouraged to report any existing or potential breaches of the Code of Ethics through the procedures set out in the Whistleblowing Policy.
✓	The Group has established a Corporate Disclosure Policy* to guide its stakeholder communications and the determination of inside information. This ensures consistent and timely disclosure and fulfilment of the Group’s continuous disclosure obligations.
✓	The Group has established an Auditor Services Policy* to set parameters for the engagement of the auditors. It also identifies areas of conflict, and prohibits the engagement of auditors in case of conflict to ensure independence.

Corporate Governance Report

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	The Group has established a fraud handling policy and procedure to control and aid in the detection and prevention of fraud against the Group. This promotes consistent organisational behaviour by providing guidelines and assigning responsibility for the controls and investigations.
✓	The Group has demonstrated its commitment to transparency in shareholder reporting by publishing a separate Corporate Governance Report since 2001. It also publishes the following reports: (i) Audit Committee Report; (ii) Directors' Remuneration and Interests Report; and (iii) Risk Management and Internal Control Report.
✓	The Group has a formal Corporate Responsibility Policy and publishes a Corporate Responsibility Report. It has early-adopted the environmental, social and governance reporting guidelines under the Listing Rules. An "integrated" approach has been adopted since the 2014 Annual Report, to provide a more holistic view of the Group's financial as well as non-financial performance.
✓	The Group serves more than 20 clear business days' notice for the Annual General Meeting ("AGM").
✓	Since 2004, the Group has operated a new form of AGM that goes beyond discharging statutory business by including a detailed business review. All voting at AGMs has been conducted by poll since 2004.
✓	The Group publishes the terms of reference and membership of all its corporate governance related Board Committees on the websites of the Group and the Stock Exchange.
✓	In 2016, the Group announced the audited financial results within 2.5 months after the end of financial year and published the Annual Report on the Group's website within 3 months after the end of financial year. The Group sent the Annual Report to shareholders within 10 days after publication. The AGM notice, Annual Report, and the financial statements were dispatched to the shareholders more than 30 days prior to the AGM (statutory requirement: 21 days). To further expedite dissemination of financial information to shareholders and investors, in 2017, the Group has further shortened the audited financial results announcement timeline to within 2 months after the financial year-end.
✓	The Group continually enhances its communications with shareholders. In December 2016, the Company held its first shareholders' visit which provided an opportunity for the shareholders to gain an insight into the Company's long established history, sustainability activities (e.g. Rooftop Urban Farm and Sky Wetland at Hysan Place) and other business areas.
✓	To further increase efficiency of communication, protection of the environment and to save costs for the Company, arrangements have been made since December 2015 to ascertain the shareholders' preference as to the means of receiving corporate communications. The aim is to continually enhance the use of the Group's corporate website as a means of shareholder communications.
✓	The Company has also initiated and invited major nominee companies to proactively forward communication materials to the ultimate beneficial shareholders at the Group's expense.

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

Our Governance Framework

Hysan operates with a clear and effective governance structure.

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

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

- Audit Committee Report – pages 121 to 124
- Risk Management and Internal Control Report – pages 44 to 49
- Directors’ Remuneration and Interests Report – pages 111 to 120
- Nomination Committee – pages 98 to 99
- Strategy Committee – page 99



For effective leadership and management, the Board sets clear governance guidelines, policies, and procedures and review them periodically, normally on an annual basis. The Board also regularly assesses and enhances its governance framework, practices and principles in light of regulatory regimes, international best practices as well as Company’s needs. The following are the key guidelines and components of Hysan’s governance framework.

- Corporate Governance Guidelines
- Board of Directors Mandate
- Roles Requirements of Non-Executive Directors
- Matters Reserved for Board Decisions
- Terms of Reference of the various corporate governance related Board Committees
- Code of Ethics for Directors and Employees
- Auditor Services Policy
- Corporate Disclosure Policy
- Whistleblowing Policy
- Board Diversity Policy

They can be reviewed on the Company’s website: www.hysan.com.hk.

Governance at a Glance

1 LEADERSHIP

THE ROLE OF THE BOARD

- Board of Directors Mandate
- Matters reserved for Board Decisions

COMPOSITION OF BOARD

- Balance of 4 INEDs and 5 NEDs
- All Directors are appointed with specific terms and subject to rotation

DIVISION OF RESPONSIBILITY

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

2 EFFECTIVENESS

BALANCE DIVERSITY OF SKILLS AND EXPERIENCE

- Diversity of Skills and experience (see “Balance, Diversity and Skills” section)

COMMITMENT

- All Directors are devoted with time commitment

INDEPENDENCE

- Meeting of Non-Executive Directors without the Executive Directors or Board members relating to the founding Lee family

EVALUATION

- Formal board evaluation process via an electronic platform. The Board discusses the findings in detail at meeting (see section on “Board Evaluation 2016”)

INFORMATION & SUPPORT

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

- Directors attended trainings to refresh skills and knowledge

THE ROLE OF COMPANY SECRETARY

- Reviews and implements corporate governance practices
- Directors have direct access to the advice and support of Company Secretary
- Keep Directors updated on legislative, regulatory and governance matters

The Board in 2016

The Board met formally throughout the year with meetings timed around the financial calendar, as well as frequent and open conversations and discussions within the Board. During the year, 4 Board meetings were held, including an off-site meeting held in an innovation lab followed by a training provided by the venue host. Full Board members attended a Strategy Committee meeting with in-depth presentation and discussion of the Group’s long-term directional strategy. Attendance at Board and Committee meetings held during 2016 is shown on page 88.

Board and Committee meetings in 2016



3 ACCOUNTABILITY

BOARD COMMITTEES

- 3 governance-related Board Committees have been established
- Board Committees report to the Board (see “Audit Committee Report” pages 121 to 124 and “Directors’ Remuneration and Interests Report” pages 111 to 120)

RISK MANAGEMENT AND INTERNAL CONTROL

- reviewed and monitored management’s risk management process and assessed effectiveness of financial controls, and other internal controls. (see “Risk Management and Internal Control Report” pages 44 to 49 and “Audit Committee Report”)

FINANCIAL REPORTING

- Independent Auditor’s Report (see pages 127 to 130)

AUDIT COMMITTEE AND AUDITORS

- Audit Committee Report (see pages 121 to 124)
- Internal Audit function
- External Auditor appointment

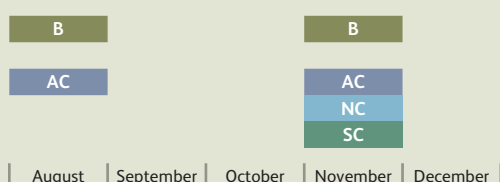
4 RELATIONS WITH SHAREHOLDERS

CONSTRUCTIVE USE OF GENERAL MEETINGS

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

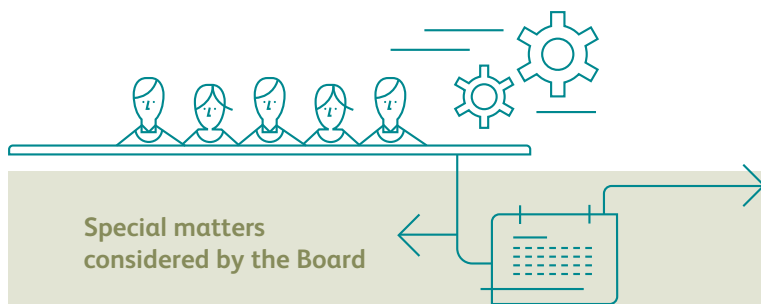
DIALOGUE WITH SHAREHOLDERS

- enhance shareholder communications by electronic channels
- shareholders’ visit for more understanding of the Group, its portfolio, history and sustainability activities and other business areas



B	Board Meeting	see page 84
AC	Audit Committee Meeting	see page 121
AGM	Annual General Meeting	
RC	Remuneration Committee Meeting	see page 111
NC	Nomination Committee Meeting	see page 98
SC	Strategy Committee Meeting	see page 99

Corporate Governance Report



Special matters considered by the Board

March

Review of reports from:

- Remuneration Committee
- Audit Committee; and review of risk management and internal control effectiveness

Review and approval of 2015 annual results, including:

- Preliminary announcement
- Declaration of 2015 2nd interim dividend
- Other key reports
 - Corporate Governance Report
 - Risk Management and Internal Control Report
 - Audit Committee Report
 - Directors' Remuneration and Interests Report
 - Directors' Report

Approval of proposals to be submitted to the AGM

Annual review of corporate governance matters

Review of I.T. objectives and focus

Review and assess risk appetites and principal risks (including safeguards against terrorist attack etc.)

May

Analysis of feedback and discussions of:

- Board and Board Committees' evaluation questionnaires

Approval of the Whistleblowing Policy

August

Review of reports from:

- Audit Committee; and review of risk management and internal control effectiveness

Review and approval of 2016 interim results, including

- Interim results announcement
- Interim report
- Declaration of 2016 1st interim dividend

Approval of re-designation of a Director

2016 was an active and effective year. The key features at the Hysan Board during 2016 are:

- The Board held 4 meetings. Hysan's Directors have a strong commitment to the Company, which was reflected in the high attendance record at the Board and its Committee meetings.
- All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense.
- Directors' and Officers' liability insurance has been arranged. The terms and extent covering 2016 was reviewed and renewed.
- Declarations of interest are recorded and records are accessible by each director.
- Financial plans, including budgets and forecasts, are regularly discussed at Board meetings. Monthly reports to the full Board are issued, covering financial and operational highlights.
- Non-Executive Directors are invited to attend Company events. Such events include the annual "Company Day" when the management team shares management objectives for the coming year with all Head Office staff and supervisors of the building offices.

November

Review of reports from:

- Nomination Committee; and review of Board size and composition, as well as “independence” of Directors and the Board Diversity Policy
- Audit Committee; discussions of risk management and internal control matters

Approval of the Board Diversity Policy

Review and discussions of 2017 budget

Review of corporate governance matters – annual review of Matters Reserved for Board Decisions (relating to the 2017 budget and business plan)

Approval of sale project for two Tai Po residential sites partnering HKR International Limited

Regular matters considered by the Board

March, May, August and November

Review and discussions of reports on:

- Operating results and regular updates for the Group’s core leasing business (Office, Retail and Residential segments)
- Current development and asset enhancement projects’ update (including the redevelopment of Lee Garden Three)

Review and discussions of:
Financial forecasts

Update on:

- Analysts’ feedback
- Legal and regulatory updates

Review and approval of:
Minutes of previous meeting

- Since 2012, the Board has moved to electronic Board papers via iPad – an initiative to reduce the use of printed paper across our business and to enhance effective and timely communication. This electronic platform allows the Directors to access information and meeting records relevant to the execution of their duties.
- To supplement the formal Board meetings and to further strengthen the independence of the Non-Executive Directors, the Independent Non-Executive Directors and Non-Executive Directors also held 2 separate discussion sessions during 2016 without the presence of Executive Directors or Board members relating to the founding Lee family. This enables them to discuss more freely the evaluation of performance of the Board as well as the Group’s management
- In 2016, the Board evaluation process and efficiency was enhanced via an electronic platform. Directors’ evaluation is collected on anonymous basis and the evaluation results are electronically auto-generated and discussed at the Board meeting.

Corporate Governance Report

Attendance at Meetings

The following table shows Directors attendance at Board, Committee and general meetings held in 2016 :

- Attended
- Attended by alternate
- ☎ Attended by tele-conference
- ◆ Attended the meetings (or part of meetings) as invitee
- Already resigned from the Board

Directors	Meetings Held/Attended					ANNUAL GENERAL MEETING
	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	STRATEGY COMMITTEE	
	(Total: 4) ^(Note 1)	(Total: 3)	(Total: 1)	(Total: 1)	(Total: 1)	(Annually)
Executive Director						
Irene Yun Lien LEE	● ● ☎ ●	◆ ◆ ◆	◆ ^(Note 7)	●	●	●
Independent Non-Executive Directors						
Nicholas Charles ALLEN ^(Note 2)	● ● □ □	● □ □	N/A	N/A	□	●
Frederick Peter CHURCHOUSE	● ● ☎ ●	● ● ●	N/A	N/A	◆	●
Philip Yan Hok FAN	☎ ☎ ● ●	● ● ●	●	●	●	☎
Lawrence Juen-Yee LAU ^(Note 3)	☎ ☎ ● ●	N/A	N/A	●	◆	●
Joseph Chung Yin POON ^(Note 4)	● ● ☎ ●	● ●	●	●	◆	●
Non-Executive Directors						
Hans Michael JEBSEN ^(Note 5)	● ● ○ ●	N/A	N/A	N/A	●	●
Siu Chuen LAU ^(Note 6)	● ● ☎ ●	◆ ◆	◆ ^(Note 7)	N/A	◆	●
Anthony Hsien Pin LEE	● ● ☎ ●	● ● ●	N/A	N/A	◆	●
Chien LEE	● ● ☎ ●	N/A	N/A	●	●	●
Michael Tze Hau LEE	● ● ☎ ●	N/A	●	N/A	◆	●

Notes:

- The August 2016 Board meeting was held through tele-conference due to Typhoon Signal No.8 to discuss and approve the 2016 unaudited interim results.
- Nicholas Charles ALLEN retired as Independent Non-Executive Director and ceased as 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 AGM held on 13 May 2016 (the "2016 AGM").
- Lawrence Juen-Yee LAU was appointed a member of the Nomination Committee with effect from the conclusion of the 2016 AGM.
- Joseph Chung Yin POON was appointed the chairman of the Audit Committee with effect from the conclusion of the 2016 AGM, and a member of Strategy Committee with effect from 22 February 2017.
- Hans Michael JEBSEN was appointed a member of the Strategy Committee with effect from the conclusion of the 2016 AGM.
- Siu Chuen LAU stepped down from the position as Deputy Chairman and Chief Executive Officer and ceased as a member of the Strategy Committee. He was also re-designated as Non-Executive Director. All with effect from the conclusion of the August 2016 Board Meeting.
- Excused from the session to discuss the executive directors' own compensation package.



Leadership

FORMAL BOARD MANDATE

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

Day-to-day management of the Group is delegated to the Executive Directors and the Executive Committee, subject to formal delegated authority limits and certain matters that have been reserved for Board approval. These matters are "**Matters Reserved for Board Decisions**" (where applicable, with a "materiality" threshold) and are reviewed annually (details on the Company's website: www.hysan.com.hk). Executive Committee members include all Executive Directors, Chief Operating Officer, Chief Financial Officer, and other members as may be appointed by the Board.

BOARD SIZE, COMPOSITION, AND APPOINTMENTS

As at 31 December 2016, there were 10 Directors on the Board: the Chairman and 9 Non-Executive Directors (including 4 Independent Non-Executive Directors). Irene Yun Lien LEE is currently the executive Chairman. In addition to her role in leading the Board, she advises, supports and coaches the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value.

The Board reviews its size and composition from time to time, and the last review was in November 2016.

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

Irene Yun Lien LEE, Philip Yan Hok FAN, Hans Michael JEBSEN and Siu Chuen LAU will retire at the forthcoming AGM to be held on 15 May 2017.

Siu Chuen LAU stepped down from his position as Deputy Chairman and Chief Executive Officer of the Company and was re-designated as Non-Executive Director with effect from conclusion of the Board Meeting of the Company held on 2 August 2016 (the "August 2016 Board Meeting"). He has informed the Board that he will not offer himself for re-election and accordingly will retire as Director after the conclusion of the forthcoming AGM. Save for Siu Chuen LAU, the other retiring Directors, being eligible, offer themselves for re-election. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to shareholders.

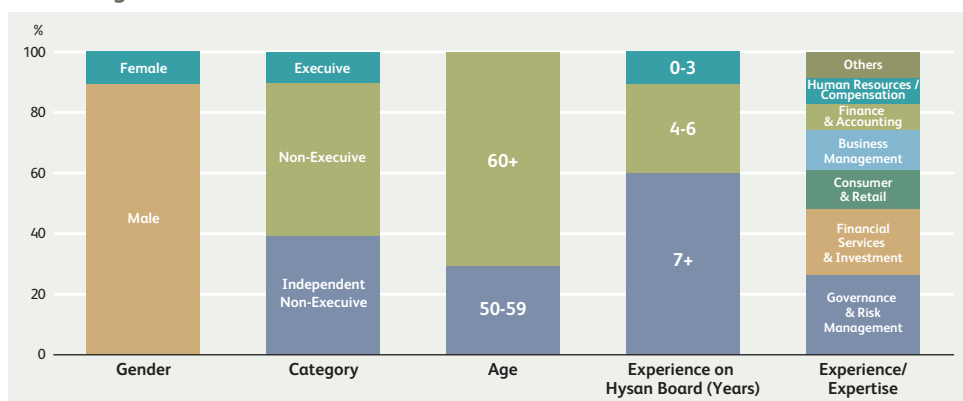
Effectiveness

BALANCE, DIVERSITY AND SKILLS

Hysan continues to promote and support diversity within the Board and the business. We strongly believe that diversity in all aspects, not just gender, provides the business with a better collective decision-making capacity, and for better anticipating the risks and opportunities in building a sustainable business.

Our Non-Executive Directors (including 4 Independent Non-Executive Directors) are of diverse backgrounds in the areas of economics, finance, business management, professional practices, and property investment. Biographies of each Director can be found in pages 76 to 79 and are also available on the Company’s website: www.hysan.com.hk.

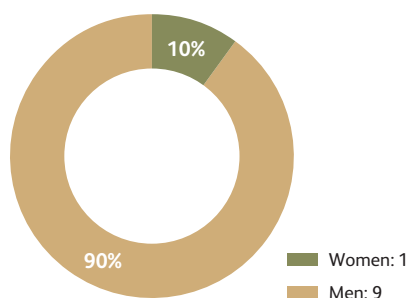
Percentage of Directors on the Board



The Board believes that diversity is vital for Board effectiveness and adopted a separate Board Diversity Policy in 2016. Under this policy, selection of candidates for Board appointment will be based on a range of diversity perspectives including gender, age, cultural / educational and professional background, skills and experience, and the ultimate decision will be based on merit against objective criteria and contribution that the candidate will bring to the Board. This philosophy of diversity extends from the Board level to the key operational management throughout the Group. The Company has taken, and continues to take steps to promote diversity, including gender diversity, at operational management levels. The Company respects a working environment that is free from discrimination and has policies against discrimination with regard to gender, age, cultural/educational and professional backgrounds, skills and experience while promoting diversity in recruitment and promotion.

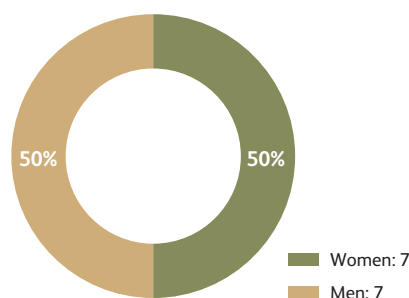
Board Diversity by Gender

31 December 2016



Gender Diversity of Key Operational Management*

31 December 2016



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

During 2016, there were 9 Non-Executive Directors drawn from diverse and complementary backgrounds. They bring valuable experience and insight including but not limited to, the following areas of experience and expertise, driving the corporate strategy and growth of the Group:

Experience / Expertise	Director(s)
1. Business Management Considerable business experience and knowledge through senior management roles in other major companies.	Philip Yan Hok FAN Hans Michael JEBSEN Joseph Chung Yin POON
2. Property Investment Experience as a senior executive in another major company in property investment, development or facilities management; or related industry.	Frederick Peter CHURCHOUSE
3. Financial Services and Investment Experience in the financial services industry or experience in overseeing financial transactions and investment management.	Anthony Hsien Pin LEE Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON Siu Chuen LAU ^(Note 1)
4. Customer and Retail Experience as a senior executive in a major retail, customer products, services or distribution company.	Frederick Peter CHURCHOUSE Hans Michael JEBSEN Siu Chuen LAU ^(Note 1)
5. Macro-environment affecting the Group Expertise in the economic, political or social environment affecting the Group and its operations, with a focus on Hong Kong and China.	Lawrence Juen-Yee LAU
6. Finance and Accounting Expertise based on the definition of "Audit Committee accounting expertise" under the Listing Rules.	Nicholas Charles ALLEN ^(Note 2) Joseph Chung Yin POON
7. Governance and Risk Management Experience in control, governance and risk management that has been gained through extensive experience on other public and private companies' board committees.	Nicholas Charles ALLEN ^(Note 2) Philip Yan Hok FAN Lawrence Juen-Yee LAU Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
8. Human Resources / Compensation Broad knowledge of the principles and practices relating to Human Resources and extensive experience in overseeing Human Resources in other major companies.	Philip Yan Hok FAN Joseph Chung Yin POON

Notes:

1. Siu Chuen LAU was re-designated as Non-Executive Director with effect from the conclusion of the August 2016 Board Meeting
2. Nicholas Charles ALLEN retired as Independent Non-Executive Director with effect from the conclusion of the 2016 AGM.

(Directors' full biographies, including relationships among members of the Board, are set out in pages 76 to 79 and are also available on the Company's website: www.hysan.com.hk)

INDEPENDENCE

As a listed company with the presence of a major shareholder family, the Board has put in place appropriate policies and processes to avoid conflicts of interest or perception of the same. This is also been safeguarded under Hong Kong Companies Ordinance which requires a director to disclose the nature and extent to the board of any material interest of entities connected with him when such entities are involved in any transaction or arrangement with the company. The Board is reminded half yearly of this requirement through receiving an explanatory note from the Company.

Non-Executive Directors held discussion sessions without presence of Executive Directors or Board members relating to founding Lee family.

“Connected transactions” with persons and entities regarded as connected with the Group under the Listing Rules are subject to the approval of the full Board, as provided under the **List of Matters Reserved for Board Decisions**. In addition, “exempted transactions” that are exempt from the Listing Rules’ disclosure requirements are also subject to reporting to the full Board after management approval, with full particulars of key terms and conditions as well as justification.

The Board has established “independence” standards for individual Directors in our **Corporate Governance Guidelines**. It considers “independence” is not only a regulatory requirement, but also to be a matter of judgment and conscience. A Director is considered to be independent only where he or she is free from any business or other relationship that might interfere with the exercise of his or her independent judgment.

The Nomination Committee carried out a detailed review of director independence. It concluded that each of the 4 Independent Non-Executive Directors was independent at the time of review. Independent Non-Executive Directors are identified in our Annual and Interim Reports and other communications with shareholders.

To strengthen the independence of the Non-Executive Directors and to enable them to discuss more freely the performance of the Board as well as the Group’s management, the Non-Executive Directors held 2 discussion sessions during 2016, without the presence of Executive Directors or Board members relating to the founding Lee family.

Checks and Balances

“Connected Transactions” with related persons subject to full Board decision

This is expressly provided in our **List of Matters Reserved for Board Decisions**. The relevant requirements are more stringent than those under the Listing Rules.

Appointment of 4 Independent Non-Executive Directors with a diverse background

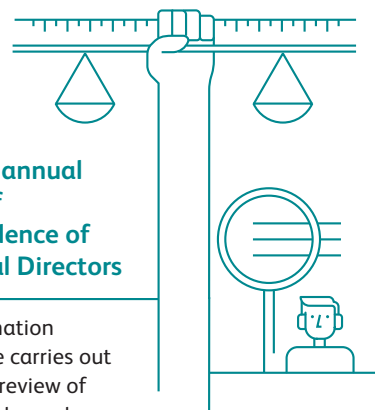
We have 4 Independent Non-Executive Directors drawn from a diverse background, spanning economics, financial services and investment, business management, professional (accounting), and property investment.

Clear “independence” standards for individual Directors

This is laid down in our **Corporate Governance Guidelines**.

Detailed annual review of independence of individual Directors

The Nomination Committee carries out a detailed review of Director independence annually.



Independence Status

Name	Management Independent	Not Independent	November 2016 Review – Reason for Independence Status
Frederick Peter CHURCHOUSE	✓		No business or other relationships with the Group or management that will affect independence
Philip Yan Hok FAN	✓		No business or other relationships with the Group or management that will affect independence
Hans Michael JEBSEN		✓	
Siu Chuen LAU		✓	
Lawrence Juen-Yee LAU	✓		No business or other relationships with the Group or management that will affect independence (Note 1)
Anthony Hsien Pin LEE		✓	
Chien LEE		✓	
Irene Yun Lien LEE	✓		
Michael Tze Hau LEE		✓	
Joseph Chung Yin POON	✓		No business or other relationships with the Group or management that will affect independence

Note:

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

BOARD EVALUATION 2016

Traditionally, Hysan evaluates the performance of the Board and members of management at meetings between the Chairman and Non-Executive Directors without the presence of management.

Since 2014, the board evaluation process was strengthened and enriched through completion of evaluation questionnaires for the full Board as well as Board Committees. In 2016, the efficiency of evaluation process was further enhanced through an electronic platform.

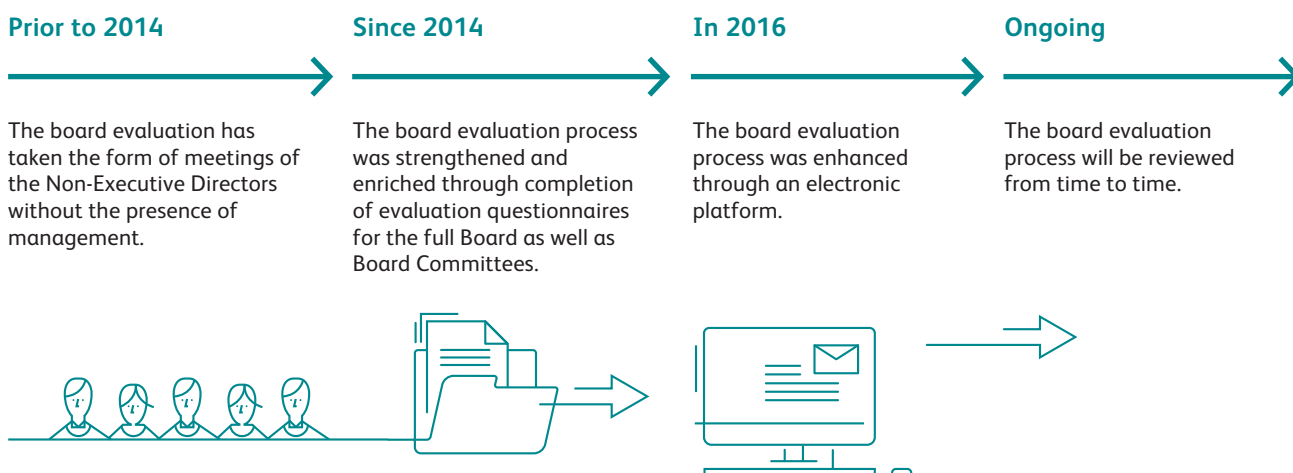
The evaluation in 2016 included the (i) Board’s roles (including Director responsibilities, relationship with the Board Committees); (ii) Board composition (size; balance of knowledge, experience and skills; independence); (iii) Board meetings and processes (including satisfaction with integrity of financial statements and accounting policies; risk management process); Board in actions (including strengths and weaknesses); and (iv) training.

The report on the evaluation was presented and discussed at the Board meeting held in May 2016. The overall conclusion from this year’s evaluation was that the Directors are highly satisfied with the Board and its Committees operate to a high standard, work well and effectively.

All responses received had a high average score at or above 4 (“Agree”), according to a scale of 1 (“Strongly Disagree”) to 5 (“Strongly Agree”). The Directors were highly satisfied with commitment of the Board and its Committees. The Directors were satisfied with integrity of financial statements and accounting policies/practices and management reports. The Board was pleased with the open and constructive environment which enabled everyone to participate fully in discussions and exchange of opinions.

As with every high performing Board, the Directors continue to look for areas of improvement. The Board will continue to review its composition, balance of knowledge and experience. On risk management and internal control aspects, Directors will use a combination of experience to approach the global and local risks and uncertainties facing the business. The Chairman will lead the Group going forward with support from the Board and the management.

Evolution of Hysan’s Board Evaluation



BOARD AND MANAGEMENT

The Board and management fully appreciate their respective roles and support the development and upkeep of a healthy corporate governance culture.

The Board works closely with management in thinking through the Group's direction and long-term plans, as well as the various opportunities and associated risks that are facing the Group generally. The Non-Executive Directors provide independent challenge and review, bringing a wide range of experiences, specific expertise, and fresh objective perspectives to the Board and the management.

HOW MANAGEMENT SUPPORTS THE EFFECTIVE WORKINGS OF THE BOARD

Supply of Information

There is good information flow between the Board and the management. The Board receives detailed quarterly reports and presentations from management in regard to business performance. Appropriate key performance indicators are used to facilitate benchmarking and peer group comparison. Monthly reports to the full Board are issued, covering financial and operational highlights. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings.

Non-Executive Directors are also invited to attend Company events. Such events include the annual "Company Day" when the management shares management objectives for the coming year with the staff. All these measures facilitate the build-up of constructive relations and dialogue between the Board and the management team, and also understanding of our people and culture.

Since 2012, the Board has moved to electronic Board papers via iPad – a contribution, albeit small, towards supporting our objective of reducing the use of printed paper across our business in light of sustainability awareness.

Induction, Business Awareness and Development

Newly appointed Directors receive a comprehensive induction briefing designed to provide a general understanding of the Group, its businesses and operations (including the major risks it faces), and an overview of the additional responsibilities of Non-Executive Directors.

Continuous professional development and training of Directors help them to keep abreast of issues facing the Group, and equip them to refresh their skills and knowledge.

Corporate Governance Report

Directors' continuous professional development in 2016

Directors	Attending trainings organised by Hysan	Attending expert briefings / seminars / conferences organised by third parties relating to the business or directors' duties	Perusing legal and regulatory updates prepared by Hysan quarterly
Executive Director			
Irene Yun Lien LEE	✓	✓	✓
Independent Non-Executive Directors			
Nicholas Charles ALLEN (retired at the conclusion of 2016 AGM)	✓	✓	✓
Frederick Peter CHURCHOUSE	✓	✓	✓
Philip Yan Hok FAN	✓	✓	✓
Lawrence Juen-Yee LAU		✓	✓
Joseph Chung Yin POON	✓	✓	✓
Non-Executive Directors			
Hans Michael JEBSEN	✓	✓	✓
Siu Chuen LAU (re-designated as Non-Executive Director at conclusion of the August 2016 Board Meeting)	✓	✓	✓
Anthony Hsien Pin LEE	✓	✓	✓
Chien LEE	✓	✓	✓
Michael Tze Hau LEE	✓	✓	✓

Independent Advice

It is recognised that there may be occasions when Directors feel that it is necessary to obtain independent professional advice for fulfilling their obligations. Such advice may be obtained at the Company's expense as stated in our Corporate Governance Guidelines.

Accountability

BOARD COMMITTEES IN 2016

In order to provide effective oversight and leadership and pursuant to its Corporate Governance Guidelines, the Board has established 3 governance-related Board Committees. Like the Board, each Committee has access to independent professional advice and counsel as required, and each is supported by the Company Secretary. These committees report to the Board. Their terms of reference are available on the Company's website.

AUDIT COMMITTEE

Composition	There is a majority of Independent Non-Executive Directors.
Chairman	Joseph Chung Yin POON (Independent Non-Executive Director)
Other members	Frederick Peter CHURCHOUSE (Independent Non-Executive Director) Philip Yan Hok FAN (Independent Non-Executive Director) Anthony Hsien Pin LEE (Non-Executive Director)

Meetings Schedule

The Audit Committee held 3 meetings during the year. At the invitation of the Audit Committee, such meetings were also attended by the Board Chairman and members of management (including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer).

Roles and Authority

Hysan believes a clear appreciation of the separate roles of management, the external auditors and Audit Committee members is crucial to the effective functioning of an audit committee. Management of Hysan is responsible for selecting appropriate accounting policies and the preparation of the financial statements. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of this Annual Report. The external auditors are responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls, to the extent that they consider necessary to support their audit report. The Audit Committee is responsible for overseeing the entire process.

The Audit Committee also has the responsibility of reviewing the Group's Whistleblowing Policy. Pursuant to the Whistleblowing Policy, employees and related third parties who deal with the Group (eg. consultants, contractors and suppliers) can raise concerns, in confidence or anonymously, about misconduct, malpractice or irregularities in any matters related to the Group. The Audit Committee ensures that these arrangements allow proportionate and independent investigation of possible breaches and related matters and there is appropriate follow up action.

Pre-meeting sessions with external and internal auditors held without management's presence

Corporate Governance Report

Activities and Report in 2016 and to date

Full details of the activities of the Audit Committee are also set out in the “Audit Committee Report” on pages 121 to 124. 3 meetings were held during the year. Attendance at Audit Committee meetings is set out in the table on page 88. In addition to reviewing and approving annual and interim financial statements, the Committee held a separate meeting that substantially focused on risk management and internal control.

REMUNERATION COMMITTEE

Composition	There is a majority of Independent Non-Executive Directors.
Chairman	Philip Yan Hok FAN (Independent Non-Executive Director)
Other members	Michael Tze Hau LEE (Non-Executive Director) Joseph Chung Yin POON (Independent Non-Executive Director)

Meetings Schedule

The Remuneration Committee generally meets at least once every year.

Roles and Authority

Management makes recommendations to the Remuneration Committee on Hysan’s framework or broad policy for the remuneration of the Executive Directors and senior management. The Committee then reviews these, and makes recommendations to the Board. The Remuneration Committee also reviews the fees payable to Non-Executive Directors and Board Committee members prior to approval at the AGM. In addition, it also reviews new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans with material financial, reputational, and strategic impact. No Director is involved in deciding his or her own remuneration.

Activities and Report in 2016 and to date

Full details of the activities of the Remuneration Committee are set out in the “Directors’ Remuneration and Interests Report” on pages 111 to 120. A meeting was held during the year. Attendance at the Remuneration Committee meeting is set out in the table on page 88.

NOMINATION COMMITTEE

Composition

Chairman	Irene Yun Lien LEE (Chairman)
Other members	Philip Yan Hok FAN (Independent Non-Executive Director) Lawrence Juen-Yee LAU (Independent Non-Executive Director) Chien LEE (Non-Executive Director) Joseph Chung Yin POON (Independent Non-Executive Director)

Meetings Schedule

The Nomination Committee generally meets at least once every year.

Roles and Authority

The Nomination Committee is responsible for nominating candidates, for Board approval, to fill Board vacancies as and when they arise, evaluating the balance of skills, knowledge and experience of the Board and reviewing the Board Diversity Policy. The Committee also reviews the independence of Directors pursuant to the Listing Rules requirements. The terms of reference of the Nomination Committee clearly set out that the Chairman of the Board shall not chair the Nomination Committee when it is dealing with the matter of succession of the chairmanship.

Activities and Report in 2016 and to date

A meeting was held during the year to (i) review the structure, size, and composition of the Board; (ii) assess the independence of Independent Non-Executive Directors; and (iii) adopt a Board Diversity Policy. Attendance at the Nomination Committee meeting is set out in the table on page 88.

STRATEGY COMMITTEE

Composition

Chairman	Irene Yun Lien LEE (Chairman)
Other members	Philip Yan Hok FAN (Independent Non-Executive Director) Hans Michael JEBSEN (Non-Executive Director) Chien LEE (Non-Executive Director) Joseph Chung Yin POON (Independent Non-Executive Director)

Meeting Schedule

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

Roles and Authority

Strategy planning is vital for the sustainability of the Company. The Strategy Committee is responsible for reviewing and making recommendations to the Board on the Group's strategy matters.

Activities and Report in 2016 and to date

A meeting was held during the year to discuss business plan, as well as longer-term directional strategy for the growth of the Group. Such meeting was also attended by full Board members.

Relations with Shareholders

Hysan are committed to maintaining an open dialogue with shareholders. We recognise a good governance framework that protects shareholder rights.

COMMUNICATION WITH SHAREHOLDERS

Accountability to Shareholders and Corporate Reporting

- Annual Report, Interim Report, press releases and announcements are disclosed in a timely manner.
- Shareholders enquiries: Investor Relations function by email to investor@hysan.com.hk.

Information via Internet

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

Institutional Shareholders

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

Constructive Use of AGM

- AGMs as a means of having a dialogue with private shareholders.
- Individual shareholders can put questions to the Chairman at the AGM.
- Board Committees Chairmen attend AGMs to respond to shareholders' questions.
- Since 2004, a "business review" session has been included in our AGMs. Topics in last AGM included: business environment in 2015, a review of business activities, and the Company's outlook for 2016.

Shareholders' Visit

- In December 2016, the Company held its first shareholders' visit.
- A good opportunity for the management to communicate with the shareholders. Also, for the shareholders to gain an insight into the Company's long established history, sustainable activities and other business areas.

Corporate Disclosure Policy

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



SHAREHOLDER RIGHTS

Proactively Forward Shareholder Communication Materials via Nominee Companies

- Since 2005, we have initiated and invited major nominee companies to proactively forward communication materials to shareholders at our expense.

Electronic Communication

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

Provision of Sufficient and Timely Information

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



Voting

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

Relevant Provisions in Articles of Association and Hong Kong Law

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

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2016, which were approved by the Board of Directors on 22 February 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2016 to be property investment, management, and development. Details of the Group's principal subsidiaries, associates and joint ventures as at 31 December 2016 are set out in notes 17 to 19 respectively to the consolidated financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 131.

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

The Board declared a second interim dividend of HK109 cents per share to the shareholders on the register of members on 9 March 2017, absorbing approximately HK\$1,139 million. The dividends declared and paid for ordinary shares in respect of the full year 2016 will absorb approximately HK\$1,411 million, the balance of the profit will be retained.

BUSINESS REVIEW AND PERFORMANCE

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

- (a) Review of the Company's business – "Management's Discussion and Analysis";
- (b) The Company's risk management framework, the principal risks the Company is facing and the controls in place – "Risk Management and Internal Control Report";
- (c) Future development in the Company's business – "Key Facts" and "Chairman's Statement";
- (d) Analysis using financial key performance indicators – "Management's Discussion and Analysis";
- (e) Discussion on the Company's environmental policies and performance – "Responsible Business";
- (f) Discussion on the Company's compliance with the relevant laws and regulations – "Corporate Governance Report", "Independent Auditor's Report" and "The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide"; and
- (g) An account of the Company's key relationships with its employees, customers and suppliers and others – "Responsible Business" and "Directors' Report".

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 134 and 135 and note 29 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2016 using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

Details of the major investment properties of the Group as at 31 December 2016 are set out in the section under Schedule of Principal Properties of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

CORPORATE GOVERNANCE

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

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

- (a) "Corporate Governance Report" (pages 81 to 101) – it gives detailed information on the Company's compliance with the Corporate Governance Code, and adoption of local and international best practices;
- (b) "Directors' Remuneration and Interests Report" (pages 111 to 120) – it gives detailed information on Directors' remuneration and interests (including information on Directors' compensation, service contracts, Directors' interests in shares, contracts and competing business);
- (c) "Audit Committee Report" (pages 121 and 124) – it sets out the terms of reference, work performed and findings of the Audit Committee for the year;
- (d) "Risk Management and Internal Control Report" (pages 44 to 49) – it sets out the Company's framework on risk assessment and internal control (including control environment, control activities and work done during the year); and
- (e) "Responsible Business" section (pages 51 to 73) – it sets out the Company's corporate responsibility policies and practices reflecting its commitment to maintaining a high standard of corporate governance.

THE BOARD

The Board is currently chaired by Irene Yun Lien LEE, Chairman. There are 9 other Non-Executive Directors.

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.

Nicholas Charles ALLEN retired as an Independent Non-Executive Director with effect from the conclusion of the 2016 AGM.

Irene Yun Lien LEE and Trevor Chi-Hsin YANG served as alternate Directors to Anthony Hsien Pin LEE and Hans Michael JEBSEN respectively throughout the year.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 76 to 79 have been Directors of the Company throughout the year.

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

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

The Company has received from each Independent Non-Executive Director an annual confirmation of his independence as regard each of the factors referred to in Rule 3.13 (1) to (8) of the Listing Rules and the Company considered all of them to be independent. The Nomination Committee also reviewed director independence in a meeting held in November 2016. (see "Corporate Governance Report")

The names of directors who have served on the boards of the subsidiaries of the Company during the year and upto the date of this report are available on the Company's website: www.hysan.com.hk.

DIRECTORS' INTERESTS IN SHARES

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in "Directors' Remuneration and Interests Report" on pages 111 to 120.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2016, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of the total no. of issued shares (Note a)
Lee Hysan Estate Company, Limited	Beneficial owner and interests of a controlled corporation	433,130,735 (Note b)	41.43
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	41.43
Silchester International Investors LLP	Investment manager	95,187,000	9.11

Notes:

- (a) The percentage was compiled based on the total number of shares of the Company in issue as at 31 December 2016 (i.e. 1,045,328,359 ordinary shares).
- (b) These interests represented the same block of shares of the Company. 393,321,734 shares were held by Lee Hysan Estate Company, Limited ("LHE") and 39,809,001 shares were held by a subsidiary of LHE. LHE is a wholly-owned subsidiary of Lee Hysan Company Limited.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register that is required to be kept under section 336 of the SFO as at 31 December 2016.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 33 to the consolidated financial statements.

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

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions (the "Transactions") under Rule 14A.76(2) of the Listing Rules during the year. Details of the Transactions required to be disclosed are set out as follows:

I. Leases granted by the Group

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

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

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
(i) Jebsen and Company Limited (Note b)	28 March 2013 (Lease and Carpark Licence Agreement) (as amended – Note c)	5 years commencing from 1 September 2013 (Note d)	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2016: HK\$31,966,216 2017: HK\$37,212,720 2018: HK\$24,808,480 (on pro-rata basis) (Note j)
(ii) Hang Seng Bank Limited (Note b)	16 August 2013 (Lease and Licence Agreement) (as amended – Note e)	2 years, 4 months and 15 days commencing from 15 October 2013	Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor and certain areas on the Lower Ground Floor and Ground Floor	2016: HK\$24,023,216 (Note j)
(iii) Treasure Matrix Limited (Notes f & g)	28 March 2014 (Lease and Licence Agreements)	5 years commencing from 28 March 2014 (Note d)	Shop Nos. 308 & 311 on the 3rd Floor (connected to an outdoor garden)	2016: HK\$6,514,818 2017: HK\$7,922,400 2018: HK\$7,922,400 2019: HK\$1,895,413 (on pro-rata basis) (Notes h to k)

CONTINUING CONNECTED TRANSACTIONS *continued*

I. Leases granted by the Group *continued*

(b) One Hysan Avenue, Causeway Bay, Hong Kong (“One Hysan Avenue”)

The following lease arrangement was entered into by OHA Property Company Limited, a wholly-owned subsidiary of the Company and property owner of One Hysan Avenue, as landlord, with Atlas Corporate Management Limited, a wholly-owned subsidiary of LHE, a substantial shareholder of the Company (holding 41.43 % interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration (<i>Note a</i>)
Atlas Corporate Management Limited	21 August 2014	3 years commencing from 1 November 2014	Whole of 21st Floor	2016: HK\$3,025,344 2017: HK\$2,526,440 (on pro-rata basis) (<i>Notes j & l</i>)

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

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

Connected person	Date of agreement	Terms	Premises	Consideration received during the year
Barrowgate Limited	(1) 28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Garden Two	HK\$7,659,068 (<i>Note m</i>)
	(2) 22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$22,142,533 (<i>Note n</i>)

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

Connected person	Date of agreement	Terms	Premises	Consideration received during the year
Barrowgate Limited	(1) 28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Garden Two	HK\$926,927 (<i>Note m</i>)
	(2) 22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$2,746,755 (<i>Note n</i>)

CONTINUING CONNECTED TRANSACTIONS continued

Notes:

- (a) The annual considerations are based on current rates of rental (including estimated turnover rent, where applicable), operating charges, (for retail premises) promotion levies and (for carparking spaces) licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges, promotion levies and licence fees (as the case may be) are payable monthly in advance.
- (b) Jebsen and Company Limited ("Jebsen and Company") and Hang Seng Bank Limited are beneficial substantial shareholders of Barrowgate and having equity interest of 10% and 24.64% respectively in Barrowgate. Hans Michael JEBSEN, Non-Executive Director of the Company, is a controlling shareholder of Jebsen and Company.
- (c) On 16 August 2016, a memorandum had been entered into and pursuant to which the rent for the period from 1 September 2016 to 31 August 2018 were reviewed and revised to the then prevailing market rent.
- (d) The term of the agreements mentioned under I(a)(i) and I(a)(iii) above exceeds 3 years. According to Listing Rules requirement, an independent financial adviser to the Board was engaged in each case. It formed the view, in each case, that the term with duration longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.
- (e) On 1 December 2014, a partial surrender agreement had been entered into and pursuant to which the lease for Shop G13A on the Ground Floor at Lee Garden Two had been early surrendered effective 31 October 2015. On 15 December 2014, a new lease and licence agreement had been entered into and pursuant to which the remaining spaces had been renewed for a further term of 3 years commencing from 1 March 2016 to 28 February 2019. As the annual consideration under the renewed lease and licence agreement falls below the applicable de minimis threshold under the Listing Rules, it constitutes an exempted continuing connected transaction of the Company.
- (f) Treasure Matrix Limited ("Treasure Matrix") is a non wholly-owned subsidiary of the Company.
- (g) Under this transaction, Barrowgate was considered a connected person of the Company under the Listing Rules by virtue of its being a non wholly-owned subsidiary of the Company and also having a substantial shareholder which is an associate of Hans Michael JEBSEN, Non-Executive Director of the Company.
- (h) Annual consideration for 2016 included actual turnover rent received for the year under review.
- (i) The rent for the period from 28 March 2017 to 27 March 2019 will be reviewed at the then prevailing market rent and to be agreed by Barrowgate and Treasure Matrix.
- (j) Office and retail monthly operating charges and carpark licence fee for Lee Garden Two were revised with effect from 1 January 2016. Office monthly operating charges for One Hysan Avenue were revised with effect from 1 January 2016.
- (k) Retail monthly operating charges and promotion levies for Lee Garden Two were revised with effect from 1 January 2017.
- (l) Office extra air-conditioning operating charges for One Hysan Avenue were revised with effect from 1 January 2017.
- (m) These represent the actual consideration received for the period from 1 January 2016 to 31 March 2016, calculated on the basis of the fee schedules as prescribed in the respective management agreements.
- (n) These represent the actual consideration received for the period from 1 April 2016 to 31 December 2016, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

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

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

CONTINUING CONNECTED TRANSACTIONS continued

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 106 to 108 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

All Independent Non-Executive Directors of the Company have reviewed the Transactions and the report of the auditor and confirmed that the respective contracts and terms of the Transactions are:

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

INTEREST IN CONTRACTS OF SIGNIFICANCE

No agreement is considered a contract of significance under paragraph 15 of Appendix 16 of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 31.78% of the aggregate amount of purchases were attributable to the Group's 5 largest suppliers with the largest supplier accounting for 15.14% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's 5 largest customers was less than 30% (being the Listing Rule disclosure threshold) of total turnover of the Group.

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

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

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 year, 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 year, the Company repurchased an aggregate of 12.59 million ordinary shares for a total consideration of approximately HK\$393 million (excluding relevant trading costs directly attributable to share repurchase) on the Stock Exchange. The repurchased shares were cancelled during the year. Details of the shares repurchased are 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	262
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	70
June	65,000	33.20	32.45	2
November	861,000	34.90	33.55	30
	<u>12,594,000</u>			<u>393</u>

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

ISSUANCE OF SECURITIES

In October 2016, Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, established the US\$1.5 billion Medium Term Note Programme ("MTN Programme"), which was listed on the Stock Exchange. Notes issued under the MTN Programme are unconditionally and irrevocably guaranteed by the Company. No notes have been issued under the MTN Programme for the year under review.

PUBLIC FLOAT

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

DONATIONS

During the year, the Group made donations of approximately HK\$0.6 million to charitable and non-profit-making organisations.

AUDITOR

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2017 AGM.

By Order of the Board
Irene Yun Lien LEE
Chairman

Hong Kong, 22 February 2017

Directors' Remuneration and Interests Report

COMPENSATION REVIEW

Remuneration Committee

The Board recognises the significance of having in place a transparent and objective process for determining Executive Director and senior management compensation. The Remuneration Committee (first established in 1987) reviews and determines the remuneration of Executive Directors as well as recommends fees payable to Non-Executive Directors for shareholders' approval. Its terms of reference have been expanded to cover review of remuneration of senior management, new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans with material financial, reputational, and strategic impact.

The Remuneration Committee currently comprises of 3 members (with a majority of Independent Non-Executive Directors). It is chaired by Philip Yan Hok FAN (Independent Non-Executive Director) and the other members are Joseph Chung Yin POON (Independent Non-Executive Director) and Michael Tze Hau LEE (Non-Executive Director).

Management makes recommendations to the Committee on the Company's framework for, and cost of, Executive Director and senior management remuneration and the Committee then reviews these recommendations. Fees payable to other Non-Executive Directors are reviewed from time to time. Independent professional advice will be sought where appropriate. On matters other than those concerning them, the Chairman and Chief Executive Officer may be invited to the Committee meetings. No Director is involved in deciding his own remuneration.

Executive Director Remuneration Policy

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

The following principles have been established:

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

Details of Director (including individual Executive Director) emoluments for the year 2016 and option movements during the year are set out in notes 11 and 34 respectively to the consolidated financial statements.

COMPENSATION REVIEW continued

Non-Executive Director Remuneration Policy

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

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

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

Non-Executive Directors (including the Independent Non-Executive Directors) received fees totalling HK\$2,501,739 for the year 2016.

2016 Review

The Committee met in March 2016 with all members present to (i) approve 2016 Executive Director compensation packages and 2015 performance-based bonus; (ii) review the fees for Non-Executive Directors and Board Committee members; and (iii) refine its terms of reference to extend its responsibility to the determination of compensation at Executive Director-level and senior management, among other matters.

The executive packages were set at levels to ensure comparability and competitiveness with Hong Kong based companies competing within a similar talent pool, with particular emphasis on the property industry. Clear performance targets were set.

February 2017 Review

The Committee met in February 2017 to (i) approve 2017 Executive Director compensation package and 2016 performance-based bonus; (ii) review the fees for Non-Executive Directors and Board Committee members; and (iii) review compensation of department heads. All members attended the meeting.

COMPENSATION REVIEW *continued*

Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. Revision to fees of Non-Executive Directors, Chairman and member of Audit Committee, and member of Strategy Committee were proposed, and approved, at the AGM held on 13 May 2016. The current fee scale for Non-Executive Directors and Board Committee members are set out below. Executive Directors will not receive any Director Fee.

	Per annum HK\$
Board of Directors	
Non-Executive Director	225,000 <i>(Note 3)</i>
Audit Committee	
Chairman	135,000 <i>(Note 3)</i>
Member	70,000 <i>(Note 3)</i>
Remuneration Committee	
Chairman	60,000 <i>(Note 2)</i>
Member	40,000 <i>(Note 1)</i>
Strategy Committee	
Chairman	30,000
Member	30,000 <i>(Note 3)</i>
Other Committees	
Chairman	30,000
Member	20,000

Notes:

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

Long-term incentives: Share Option Schemes

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

Key terms of the share option schemes of the Company are summarised as follows:

The 2005 Share Option Scheme (the "2005 Scheme")

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

Under the 2005 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive 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, 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).

COMPENSATION REVIEW continued

Long-term incentives: Share Option Schemes continued

The 2005 Share Option Scheme (the "2005 Scheme") continued

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

The 2015 Share Option Scheme (the "New Scheme")

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

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.

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 New Scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30 % of the shares in issue from time to time (or 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 shareholders' approval, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

Grant and vesting structures

Under the Company's current policy, grants will be made on a periodic basis. Exercise period is 10 years. 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.

COMPENSATION REVIEW *continued***Long-term incentives: Share Option Schemes** *continued***Movement of share options**

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

As at the date of this Annual Report:

- (i) 2,360,335 share options granted (including 1,723,323 fully-vested share options) under the 2005 Scheme remained outstanding, representing approximately 0.23 % of the total number of issued shares of the Company;
- (ii) 940,000 share options granted (none of which were vested) under the New Scheme remained outstanding, representing approximately 0.09 % of the total number of issued shares of the Company; and
- (iii) 105,449,669 shares are issuable under the New Scheme representing approximately 10% of the total number of issued shares of the Company.

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

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	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)	–

COMPENSATION REVIEW continued

Long-term incentives: Share Option Schemes continued

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)	
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

COMPENSATION REVIEW continued**Long-term incentives: Share Option Schemes** continued**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

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

Particulars of the Schemes are set out in note 34 to the consolidated financial statements.

COMPENSATION REVIEW continued

Long-term incentives: Share Option Schemes continued

Value of share options

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

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
Closing share price at the date of grant	HK\$33.050	HK\$33.150
Exercise price	HK\$33.050	HK\$33.150
Risk free rate (<i>Note a</i>)	0.931%	1.019%
Expected life of option (<i>Note b</i>)	5 years	5 years
Expected volatility (<i>Note c</i>)	27.323%	27.339%
Expected dividend per annum (<i>Note d</i>)	HK\$1.092	HK\$1.092
Estimated fair values per share option	HK\$6.127	HK\$6.190

Notes:

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

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2016, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

Name	Number of ordinary shares held				Total	% of the total no. of issued shares (Note a)
	Personal interests	Family interests	Corporate interests	Other interests		
Hans Michael JEBSEN	60,984	–	2,473,316 (Note b)	–	2,534,300	0.242
Irene Yun Lien LEE	304,000	–	–	–	304,000	0.029
Chien LEE	800,000	–	–	–	800,000	0.077

Notes:

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

Executive Director(s) of the Company have been granted share options under the 2005 Scheme and the New Scheme (details are set out in the section headed "Long-term incentives: Share Option Schemes" above). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Aggregate long positions in shares of associated corporations

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

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

Note:

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

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2016 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN SHARES continued

Compliance of the Model Code for Securities Transactions by Directors of Listed Issuers

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

- (i) Irene Yun Lien LEE, Siu Chuen LAU, Anthony Hsien Pin LEE, Chien LEE and Michael Tze Hau LEE are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) Hans Michael JEBSEN and his alternate, Trevor Chi-Hsin YANG, hold the offices of directors in Jebesen and Company. Business activities of some of its subsidiaries include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebesen is also a substantial shareholder of the companies.
Mr. Jebesen is an independent non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.
- (iii) Chien LEE is a non-executive director of Swire Pacific Limited whose business includes, inter alia, property investment and trading in Hong Kong, the People's Republic of China and the United States of America.

The Company's management team is separate and independent from that of the companies identified above. In addition, save and except Irene Yun Lien LEE and Siu Chuen LAU (redesignated as Non-Executive Director with effect from conclusion of the August 2016 Board Meeting), the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

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

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

By Order of the Board
Irene Yun Lien LEE
Chairman

Hong Kong, 22 February 2017

Audit Committee Report

The Audit Committee has 4 members (with a majority of Independent Non-Executive Directors). Currently, it is chaired by Joseph Chung Yin POON (Independent Non-Executive Director, appointed as the Chairman of Audit Committee with effect from the conclusion of the May 2016 AGM), and the other members are Frederick Peter CHURCHOUSE (Independent Non-Executive Director), Philip Yan Hok FAN (Independent Non-Executive Director) and Anthony Hsien Pin LEE (Non-Executive Director). Nicholas Charles ALLEN ceased to be the Chairman of Audit Committee with effect from the conclusion of the May 2016 AGM.

Under its terms of reference, the Committee oversees the Company's financial reporting process; it also reviews the Company's risk management and internal control systems and its relationship with external auditor. The Committee also has the responsibility to review the adequacy of resources, qualifications and experience of staff of the Group's internal audit, accounting and financial reporting functions, and their training programmes and budget. The Committee reports to the Board on its findings after each Committee meeting.

The Committee held 3 meetings during the year, on 7 March, 1 August and 28 November 2016. The meetings in March 2016 and August 2016 held to consider the financial statements for 2015 final results and 2016 interim results respectively. The meeting held in November reviewed the Group's risk management and internal control systems, report on major risks which the Group was facing and miscellaneous issues not relating to the approval of financial statements and results announcements. The Committee last met on 21 February 2017 to consider the financial statements for the year ended 31 December 2016.

At the invitation of the Audit Committee, meetings are also attended by the Chairman and other members of the management (including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer). Pre-meeting sessions with external and internal auditors are held without management's presence.

Details on the meeting held in March 2016 were set out in the 2015 Annual Report. Significant matters, as reviewed and discussed in the other meetings, include the following:

FINANCIAL REPORTING

In the process of financial reporting, management is responsible for the preparation of the Group's financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls in such regard. The Committee oversees the respective work of management and the external auditor to endorse the processes and safeguards employed by them.

- August 2016 : The Committee reviewed and recommended to the Board for approval of the unaudited financial statements for the first 6 months of 2016, prior to announcement. The Committee received reports from and met with the external auditor and internal auditor to discuss the scope of their respective review and findings.

Judgmental issues considered: The Committee had discussions with management on significant judgments affecting the Group's financial statements. These included valuation of investment properties as at 30 June 2016, and valuation of investment under redevelopment as at 30 June 2016. In particular, there were discussions on residual valuation approach adopted by the independent professional valuer, Knight Frank Petty Limited, for Lee Garden Three.

The Group's independent professional valuer was also present at the meeting to answer the Committee's questions.

For valuation of investment properties, the Committee also noted that the external auditor had performed various procedures before relying on the valuation prepared by the Group's independent professional valuer.

Based on such review and discussions, and the external auditor's review work, the Audit Committee recommended to the Board for approval of the financial statements for the first 6 months ended 30 June 2016.

FINANCIAL REPORTING continued

- February 2017 : The Committee reviewed and discussed with the management and external auditor the audited financial statements for the year ended 31 December 2016, prior to announcement. The Committee received reports from and met with the external auditor and internal auditor and discussed the general scope of their respective work and findings.

Judgmental issues considered: The Committee had discussions with management on significant judgments affecting the Group’s financial statements. These included valuation of investment properties as at 31 December 2016.

The Group’s independent professional valuer, Knight Frank Petty Limited, was also present at the meeting to answer the Committee’s questions.

For valuation of investment properties, the Committee also noted that the external auditor had performed various procedures before relying on the valuation prepared by the Group’s independent professional valuer.

Based on these review and discussions, and the report of the external auditor, the Audit Committee recommended to the Board for approval of the financial statements for the year ended 31 December 2016, together with the Independent Auditor’s Report.

RELATIONSHIP WITH EXTERNAL AUDITOR

- August 2016 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of: 2016 final results (including 2016 annual audit, the related results announcement, and annual review of continuing connected transactions); and annual update of the Group’s MTN Programme.
- November 2016 : The Committee reviewed the audit progress report of the external auditor.
- February 2017 : Annual Assessment: The Committee assessed and was satisfied as to the auditor’s qualification, expertise and services and independence. In particular, it was satisfied that the auditor’s independence and objectivity has not been impaired by reason of the provision of non-audit services. An arrangement for lead audit partner rotation was also in place by the auditor.

External Auditor’s Services and Fees

	2016 HK\$ million	2015 HK\$ million
Audit Services	2.50	2.35
Non-audit Services (<i>Note</i>)	0.94	0.87
Total	3.44	3.22

Note: “Non-audit services” referred to agreed-upon-procedure reports or statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these included reviews of interim financial statements, issue of assurance reports for continuing connected transactions, and reviews of financial information in connection with the annual updates of the Group’s MTN Programmes in 2016 and 2015 respectively.

The Committee also reviewed and considered the 2017 audit service plan of the external auditor, and the terms of its engagement in respect of the 2017 interim results review.

The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group’s external auditor for 2017.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

- August and November 2016 : The Committee received from, and discussed with, management (i) an update report on major risks the Group was facing; (ii) review of IT operation framework; (iii) mapping of legal and regulatory compliance framework; (iv) risk management presentation on project management of Lee Garden Three construction; and (v) review on whistleblowing reports.

The Committee considered the reports of the Internal Audit, including status in implementing its recommendations.

At the November 2016 meeting, the Committee also reviewed the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, and their training programmes and budget.

- February 2017 : The Committee reviewed 2016 annual risk management and internal control systems based on:
 - regular reports by management of major risks, and special reports on selected major risk items
 - regular reports of the Internal Audit, including status in implementing its recommendations
 - certification of controls effectiveness by management, covering financial, operational, and compliance controls, noting the adoption of a control self-assessment questionnaire across the operating departments
 - confirmation from the external auditor that it had not identified any control weaknesses during the course of its audit

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

INTERNAL AUDIT

- August and November 2016, February 2017 : The Committee reviewed the management responses to audit reports issued during the year; and progress made in implementing improvement actions.
- November 2016 : The Committee considered and approved the scope of work to be undertaken by the Internal Audit function in 2017.

EVALUATION

The Board and Committee evaluation process which took place during the year concluded that the Committee was effective in fulfilling its roles in 2016. (For details, please refer to Corporate Governance Report – “Board Evaluation 2016” (page 94)).

Members of the Audit Committee

Joseph Chung Yin POON (*Chairman*)

Frederick Peter CHURHOUSE

Philip Yan Hok FAN

Anthony Hsien Pin LEE

Hong Kong, 22 February 2017

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.

德勤

Overview

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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

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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.

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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.

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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.

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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

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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

For the year ended 31 December 2016

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

For the year ended 31 December 2016

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

For the year ended 31 December 2016

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 Jebesen 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

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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 (<i>Note a</i>)	Balance as at 1.1.2015	Changes during the year			Balance as at 31.12.2015
					Granted	Exercised	Cancelled/ lapsed (<i>Note b</i>)	
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 (<i>Note c</i>)	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 (<i>Note c</i>)	12.3.2016 – 11.3.2025	–	300,000	–	–	300,000
Wendy Wen Yee YUNG (<i>Note d</i>)	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) (<i>Note e</i>)	(64,000)	–
	12.3.2015	36.27 (<i>Note c</i>)	12.3.2016 – 11.3.2025	–	49,500	–	(49,500)	–
Eligible employees (<i>Note f</i>)								
	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) (<i>Note g</i>)	–	152,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	181,001	–	(9,000) (<i>Note h</i>)	–	172,001
	30.3.2012	31.61	30.3.2013 – 29.3.2022	262,335	–	(12,000) (<i>Note i</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) (<i>Note j</i>)	(13,000)	396,000
	31.3.2015	34.00 (<i>Note k</i>)	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.

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

Hysan Development Company Limited

49/F Lee Garden One, 33 Hysan Avenue, Hong Kong

T 852 2895 5777 F 852 2577 5153

www.hysan.com.hk

