Management discussion and analysis

Results of operations

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

Revenue and profit

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

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

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

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

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

Discussions on the major reportable segments are set out below.

Property development

Gross revenue – subsidiaries

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

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

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

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

Pre-tax profits – subsidiaries, associates and joint ventures

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

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

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

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

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

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

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

Property leasing

Gross revenue – subsidiaries

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

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

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

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

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

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

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

Department store operation

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

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

Other businesses

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

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

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

Associates

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

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

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

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

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

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

Joint ventures

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

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

Finance costs

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

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

Revaluation of investment properties and investment properties under development

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

Financial resources and liquidity

Medium Term Note Programme

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

Maturity profile and interest cover

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

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

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

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

The interest cover of the Group is calculated as follows:

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

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

Treasury and financial management

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

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

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

Material acquisition and disposals

Material acquisition

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

Material disposals

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

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

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

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

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

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

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

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

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

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

Charge on assets

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

Capital commitments

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

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

Contingent liabilities

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

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

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

Employees and remuneration policy

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

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

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

Non-adjusting events after the reporting period

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

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

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