Notes to the financial statements

for the year ended 31 December 2017

1 General information

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

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

2 Significant accounting policies

(a) Statement of compliance

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

(b) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company, which are relevant to the Group's consolidated financial statements for the current accounting period:

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

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

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

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

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

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

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

HKFRS 9 introduces, inter alia, new classification and measurement requirements for financial assets on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, a new expected credit loss model that replaces the incurred loss impairment model used in HKAS 39, *Financial Instruments: Recognition and Measurement* ("HKAS 39"), and a new hedge accounting model where the hedged ratio is required to be the same as the one used by an entity's management for risk management purposes. Based on management's initial assessment,

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

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

Under HKFRS 16, a lessee is required to recognise at its inception a right-of-use asset and a lease liability in the statement of financial position, and the related depreciation charge on the right-of-use asset and the related interest expenses on the lease liability in the statement of profit or loss. Management has initially assessed that the adoption of HKFRS 16 would affect the leases of properties as a lessee currently classified as operating leases, which would result in an increase in both assets and liabilities and would impact on the timing of recognition in the statement of profit or loss over the period of the leases. As disclosed in note 36(b), a portion of the Group's future minimum lease payments under non-cancellable operating leases is payable between one and five years after the end of the reporting period. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will perform a more detailed analysis taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

2 Significant accounting policies (continued)

(c) Basis of preparation of the financial statements

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

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

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

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

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

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

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

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

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

(d) Subsidiaries and non-controlling interests

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

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

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

2 Significant accounting policies (continued)

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, where appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

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

(e) Associates and joint arrangements

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

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

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

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

2 Significant accounting policies (continued)

(e) Associates and joint arrangements (continued)

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

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

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

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

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

(f) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

2 Significant accounting policies (continued)

(g) Other investments in debt and equity securities

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

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

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

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

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

(h) Derivative financial instruments

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

(i) Cash flow hedges

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

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

2 Significant accounting policies (continued)

(i) Cash flow hedges (continued)

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

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

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

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

(i) Investment properties and investment properties under development

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

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

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

(ii) Other property, plant and equipment

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

– hotel properties;

– other land and buildings;

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

– other items of plant and equipment.

2 Significant accounting policies (continued)

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

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

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

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

(k) Depreciation

(i) Investment properties and investment properties under development

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

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

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

(iii) Other items of plant and equipment

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

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

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

2 Significant accounting policies (continued)

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

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

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

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

(m) Leased assets

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

(i) Classification of assets leased to the Group

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

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

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

2 Significant accounting policies (continued)

(m) Leased assets (continued)

(ii) Operating lease charges

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

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

(n) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an available-for-sale security below its cost.

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

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(n)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

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

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

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

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

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

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

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(ii) Impairment of other assets

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

– Other property, plant and equipment;

– goodwill; and

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

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

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

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

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

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

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

(o) Inventories

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

(i) Leasehold land held for development for sale

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

(ii) Properties held for/under development for sale

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

(iii) Completed properties for sale

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

(iv) Retail, catering stocks and trading goods

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

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

2 Significant accounting policies (continued)

(p) Construction contracts

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

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

(q) Trade and other receivables

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

(r) Interest-bearing borrowings

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

(s) Trade and other payables

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

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

2 Significant accounting policies (continued)

(u) Employee benefits

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

(v) Income tax

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

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

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

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

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

2 Significant accounting policies (continued)

(v) Income tax (continued)

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to realise the assets and settle the liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or realised, intend to realise the current tax assets and settle the current tax liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

2 Significant accounting policies (continued)

(w) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

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

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

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

(ii) *Other provisions and contingent liabilities*

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

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

2 Significant accounting policies (continued)

(x) Revenue recognition

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

(i) Sale of properties

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

(ii) Rental income from operating leases

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

(iii) Interest income

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

(iv) Contract revenue

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

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

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

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

(v) Hotel operation

Income from hotel operation is recognised when services are provided.

(vi) Sale of goods

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

2 Significant accounting policies (continued)

(x) Revenue recognition (continued)

(vii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(y) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the transaction dates. Items in the statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 July 2005 is translated into Hong Kong dollars at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

(z) Borrowing costs

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

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

2 Significant accounting policies (continued)

(aa) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

(ab) Segment reporting

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

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

3 Accounting estimates and judgements

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

(a) Valuation of investment properties and investment properties under development

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

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

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

(b) Write-down of inventories for property development

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

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

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

(c) Impairment of other property, plant and equipment

If circumstances indicate that the carrying amounts of other property, plant and equipment may not be recoverable, the assets may be considered impaired and are tested for impairment. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the recoverable amount which requires significant judgements, the Group estimates the future cash flows to be derived from continuing use and ultimate disposal of the asset and applies an appropriate discount rate to these future cash flows.

(d) Recognition of deferred tax assets

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

4 Financial risk management and fair values of financial instruments

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

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, derivative financial instruments as well as instalments, loans, rental and other trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Transactions involving derivative financial instruments are also executed with counterparties of sound credit standing. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

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

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

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

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

(b) Liquidity risk

The treasury function of the Group is arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

	2017 Contractual undiscounted cash outflow						2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million
Bank loans	24,536	16,433	26,546	4,221	71,736	69,177	14,881	6,042	23,005	–	43,928	42,478
Guaranteed notes	1,618	5,524	1,576	2,304	11,022	9,373	6,211	1,469	6,655	713	15,048	13,606
Creditors and accrued expenses	7,606	–	–	–	7,606	7,606	7,748	–	–	–	7,748	7,748
Rental and other deposits	618	468	418	38	1,542	1,542	929	432	344	43	1,748	1,748
Amount due to a joint venture	252	–	–	–	252	244	–	–	–	–	–	–
	34,630	22,425	28,540	6,563	92,158	87,942	29,769	7,943	30,004	756	68,472	65,580

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

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

(c) Interest rate risk

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

(i) Hedging

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

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

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

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

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

(c) Interest rate risk (continued)

(ii) Interest rate profile

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

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

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

(iii) Sensitivity analysis

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

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

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

(d) Foreign currency risk

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

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

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

(i) Hedging

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

(ii) Sensitivity analysis

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

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

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

(e) Equity price risk

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

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

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

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

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

(f) Fair value measurement (continued)

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

Fair value hierarchy (continued)

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

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

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

(f) Fair value measurement (continued)

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

Fair value hierarchy (continued)

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

Valuation techniques and inputs used in Level 2 fair value measurements

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

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

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

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

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

– Unlisted investments

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

– Held-to-maturity debt securities

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

5 Revenue

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

The major items are analysed as follows:

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

6 Other revenue

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

7 Other net income

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

Notes:

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

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

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

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

(ii) *The amount represents the net gain on the winding-up of two subsidiaries, namely, Tianjin Jinning Roads Bridges Construction Development Company Limited and Tianjin Wanqiao Project Development Company Limited, which was completed on 16 November 2017.*

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

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

8 Profit before taxation

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

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

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

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

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

8 Profit before taxation (continued)

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

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

Notes:

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

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

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

9 Directors' emoluments

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

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

9 Directors' emoluments (continued)

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

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

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

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

9 Directors' emoluments (continued)

During the years ended 31 December 2017 and 2016:

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

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

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

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

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

10 Emoluments of five highest paid individuals and senior management

(a) Emoluments of five highest paid individuals

Of the five individuals with the highest emoluments, all (2016: all) of them are directors whose emoluments are disclosed in note 9.

(b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in notes 9 and 10(a) respectively, the emoluments of the senior management whose profiles are set out in the section "Biographical Details of Directors and Senior Management" of the Company's annual report for the year ended 31 December 2017 (of which these financial statements form a part) fell within the following bands:

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

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

11 Income tax

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

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

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

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

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

11 Income tax (continued)

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

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

11 Income tax (continued)

(c) Deferred tax assets and liabilities recognised:

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

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

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

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

11 Income tax (continued)

(d) Deferred tax assets not recognised:

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

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

Notes:

(i) *These tax losses do not expire under current tax legislation.*

(ii) *These tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.*

The Group has not recognised deferred tax assets in respect of deductible temporary differences and unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

12 Dividends

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

	2017 HK$ million	2016 HK$ million
Interim dividend declared and paid of HK$0.48 (2016: HK$0.42) per share	**1,921**	1,528
Final dividend proposed after the end of the reporting period of HK$1.23 (2016: HK$1.13) per share	**4,921**	4,110
	6,842	5,638

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

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

	2017 HK$ million	2016 HK$ million
Final dividend in respect of the previous financial year, approved and paid during the year of HK$1.13 (2016: HK$1.07) per share	**4,110**	3,538

13 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2017			2016		
	Pre-tax amount HK$ million	**Tax expense HK$ million**	**Net-of-tax amount HK$ million**	Pre-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million
Exchange differences: net movement in the exchange reserve	**3,221**	**–**	**3,221**	(3,577)	–	(3,577)
Cash flow hedges: net movement in the hedging reserve	**187**	**(31)**	**156**	53	(8)	45
Available-for-sale securities: net movement in the fair value reserve	**245**	**–**	**245**	68	–	68
Share of other comprehensive income of associates and joint ventures	**1,577**	**–**	**1,577**	(1,086)	–	(1,086)
Other comprehensive income for the year	**5,230**	**(31)**	**5,199**	(4,542)	(8)	(4,550)
		(note 11(c))			(note 11(c))	

13 Other comprehensive income (continued)

(b) Components of other comprehensive income, including reclassification adjustments

	2017 HK$ million	2016 HK$ million
Exchange differences:		
– translation of financial statements of foreign entities	**3,484**	(3,559)
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries (see note 34)	**(238)**	(18)
– reclassification adjustments for amounts transferred to profit or loss on winding-up of subsidiaries	**(25)**	–
Net movement in the exchange reserve during the year recognised in other comprehensive income	**3,221**	(3,577)
Cash flow hedges:		
– effective portion of changes in fair value of hedging instruments recognised during the year	**332**	536
– reclassification adjustments for amounts transferred to profit or loss	**(145)**	(483)
– net deferred tax charged to other comprehensive income	**(31)**	(8)
Net movement in the hedging reserve during the year recognised in other comprehensive income	**156**	45
Available-for-sale securities:		
– changes in fair value recognised during the year	**500**	49
– reclassification adjustments for amounts transferred to profit or loss on disposal	**(256)**	(2)
– reclassification adjustments for amounts transferred to profit or loss on impairment	**1**	21
Net movement in the fair value reserve during the year recognised in other comprehensive income	**245**	68

13 Other comprehensive income (continued)

(c) For each component of equity

	Attributable to equity shareholders of the Company								
	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total other comprehensive income HK$ million
2016									
Exchange differences:									
– translation of financial statements of foreign entities	–	(3,539)	–	–	–	–	(3,539)	(20)	(3,559)
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries	–	(18)	–	–	–	–	(18)	–	(18)
Cash flow hedges:									
– effective portion of changes in fair value, net of deferred tax	–	–	–	448	–	–	448	–	448
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	(403)	–	–	(403)	–	(403)
Available-for-sale securities:									
– changes in fair value	–	–	49	–	–	–	49	–	49
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	(2)	–	–	–	(2)	–	(2)
– reclassification adjustments for amounts transferred to profit or loss on impairment	–	–	21	–	–	–	21	–	21
Share of other comprehensive income of associates and joint ventures	–	(1,400)	257	54	–	3	(1,086)	–	(1,086)
Other comprehensive income for the year	–	(4,957)	325	99	–	3	(4,530)	(20)	(4,550)
2017									
Exchange differences:									
– translation of financial statements of foreign entities	–	**3,472**	–	–	–	–	**3,472**	**12**	**3,484**
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries	–	**(238)**	–	–	–	–	**(238)**	–	**(238)**
– reclassification adjustments for amounts transferred to profit or loss on winding-up of subsidiaries	–	**(18)**	–	–	–	–	**(18)**	**(7)**	**(25)**
Cash flow hedges:									
– effective portion of changes in fair value, net of deferred tax	–	–	–	**277**	–	–	**277**	–	**277**
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	**(121)**	–	–	**(121)**	–	**(121)**
Available-for-sale securities:									
– changes in fair value	–	–	**500**	–	–	–	**500**	–	**500**
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	**(256)**	–	–	–	**(256)**	–	**(256)**
– reclassification adjustments for amounts transferred to profit or loss on impairment	–	–	**1**	–	–	–	**1**	–	**1**
Share of other comprehensive income of associates and joint ventures	–	**1,625**	**(45)**	**(56)**	–	**53**	**1,577**	–	**1,577**
Other comprehensive income for the year	–	**4,841**	**200**	**100**	–	**53**	**5,194**	**5**	**5,199**

14 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$30,433 million (2016: HK$21,916 million) and the weighted average number of 4,001 million ordinary shares in issue during the year (2016: 4,001 million ordinary shares*), calculated as follows:

	2017 million	2016 million
Number of issued ordinary shares at 1 January	**3,637**	3,306
Weighted average number of ordinary shares issued in respect of the bonus issue in 2016	–	331
Weighted average number of ordinary shares issued in respect of the bonus issue in 2017	**364**	364
Weighted average number of ordinary shares for the year (2016: as adjusted)	**4,001**	4,001

Diluted earnings per share were the same as the basic earnings per share for the year and the corresponding year ended 31 December 2016 as there were no dilutive potential ordinary shares in existence during both years.

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

14 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the profit attributable to equity shareholders of the Company after excluding the effects of changes in fair value of investment properties and investment properties under development ("Underlying Profit") of HK$19,557 million (2016: HK$14,169 million). A reconciliation of profit is as follows:

	2017 HK$ million	2016 HK$ million
Profit attributable to equity shareholders of the Company	**30,433**	21,916
Changes in fair value of investment properties and investment properties under development during the year (note 16(a))	**(9,911)**	(7,013)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the year	**238**	445
Share of changes in fair value of investment properties (net of deferred tax) during the year:		
– associates	**(950)**	(867)
– joint ventures	**(2,929)**	(2,436)
Cumulative fair value change of investment properties and investment properties under development disposed of during the year, net of tax (note):		
– subsidiaries	**3,054**	2,257
– associates and joint ventures	**28**	–
Effect of share of non-controlling interests	**(406)**	(133)
Underlying Profit	**19,557**	14,169
Underlying earnings per share, based on the weighted average number of ordinary shares for the year (note 14(a))	**HK$4.89**	HK$3.54*

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

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

15 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

Property development	:	Development and sale of properties
Property leasing	:	Leasing of properties
Department store operation	:	Department store operation and management
Other businesses	:	Hotel operation and management, construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land
Utility and energy	:	Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases.

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before reversal of provision/(provision) on inventories, net, sales of property interests, fair value adjustment of investment properties and investment properties under development, net finance costs, income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses, net.

15 Segment reporting (continued)

(a) Results of reportable segments

Information regarding the Group's and its share of associates and joint ventures on reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue (note (i)) HK$ million	Segment results HK$ million	Share of revenue HK$ million	Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Revenue HK$ million	Segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million
For the year ended 31 December 2017										
Property development										
Hong Kong	9,555	3,373	408	143	9,963	3,516	(524)	(235)	9,439	3,281
Mainland China	6,967	1,442	3,442	1,097	10,409	2,539	–	(2)	10,409	2,537
	16,522	4,815	3,850	1,240	20,372	6,055	(524)	(237)	19,848	5,818
Property leasing										
Hong Kong	3,979	2,955	2,776	2,353	6,755	5,308	(9)	(3)	6,746	5,305
Mainland China	1,699	1,332	14	12	1,713	1,344	–	–	1,713	1,344
	(note (ii)) 5,678	4,287	2,790	2,365	8,468	6,652	(9)	(3)	8,459	6,649
Department store operation	834	265		–		265		(27)		238
Other businesses	1,419	1,004		462		1,466		–		1,466
	24,453	10,371		4,067		14,438		(267)		14,171
Utility and energy	–	–		3,782		3,782		–		3,782
	24,453	10,371		7,849		18,220		(267)		17,953
Reversal of provision/(provision) on inventories, net		25		(1)		24		–		24
Sales of property interests (note (iv))		(note 7) 5,048		15		5,063		(99)		4,964
Unallocated head office and corporate expenses, net		(note (iii)) (1,559)		(239)		(1,798)		(7)		(1,805)
Profit from operations		13,885		7,624		21,509		(373)		21,136
Increase in fair value of investment properties and investment properties under development		9,911		3,893		13,804		(51)		13,753
Finance costs		(837)		(662)		(1,499)		12		(1,487)
Bank interest income		633		121		754		(5)		749
Net finance costs		(204)		(541)		(745)		7		(738)
Profit before taxation		23,592		10,976		34,568		(417)		34,151
Income tax		(2,115)		(1,632)		(3,747)		29		(3,718)
Profit for the year		21,477		9,344		30,821		(388)		30,433

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2017						
Share of profits less losses of associates (note (v))						
– Listed associates						
The Hong Kong and China Gas Company Limited	–	744	(271)	473	2,942	3,415
Miramar Hotel and Investment Company, Limited	–	639	60	699	–	699
Hong Kong Ferry (Holdings) Company Limited	34	39	38	111	–	111
– Unlisted associates	547	140	54	741	–	741
	581	1,562	(119)	2,024	2,942	4,966
Share of profits less losses of joint ventures (note (vi))	111	4,112	155	4,378	–	4,378
	692	5,674	36	6,402	2,942	9,344

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue (note (i)) HK$ million	Segment results HK$ million	Share of revenue HK$ million	Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Revenue HK$ million	Segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million
For the year ended 31 December 2016										
Property development										
Hong Kong	9,951	2,752	115	76	10,066	2,828	(960)	(286)	9,106	2,542
Mainland China	7,728	1,085	2,740	369	10,468	1,454	(5)	(9)	10,463	1,445
	17,679	3,837	2,855	445	20,534	4,282	(965)	(295)	19,569	3,987
Property leasing										
Hong Kong	3,871	2,894	2,684	2,244	6,555	5,138	(15)	(6)	6,540	5,132
Mainland China	1,688	1,339	12	10	1,700	1,349	–	–	1,700	1,349
	(note (ii)) 5,559	4,233	2,696	2,254	8,255	6,487	(15)	(6)	8,240	6,481
Department store operation	871	298		–		298		(36)		262
Other businesses	1,459	696		175		871		(19)		852
	25,568	9,064		2,874		11,938		(356)		11,582
Utility and energy	–	–		3,596		3,596		–		3,596
	25,568	9,064		6,470		15,534		(356)		15,178
Provision on inventories, net		(332)		(1)		(333)		–		(333)
Sales of property interests (note (iv))		(note 7) 1,927		1		1,928		11		1,939
Unallocated head office and corporate expenses, net		(note (iii)) (456)		(307)		(763)		13		(750)
Profit from operations		10,203		6,163		16,366		(332)		16,034
Increase in fair value of investment properties and investment properties under development		7,013		3,316		10,329		(5)		10,324
Finance costs		(882)		(679)		(1,561)		17		(1,544)
Bank interest income		327		100		427		(5)		422
Net finance costs		(555)		(579)		(1,134)		12		(1,122)
Profit before taxation		16,661		8,900		25,561		(325)		25,236
Income tax		(2,255)		(1,120)		(3,375)		55		(3,320)
Profit for the year		14,406		7,780		22,186		(270)		21,916

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2016						
Share of profits less losses of associates (note (v))						
– Listed associates						
The Hong Kong and China Gas Company Limited	–	713	(386)	327	2,721	3,048
Miramar Hotel and Investment Company, Limited	–	613	14	627	–	627
Hong Kong Ferry (Holdings) Company Limited	37	38	5	80	–	80
– Unlisted associates	33	99	4	136	–	136
	70	1,463	(363)	1,170	2,721	3,891
Share of profits less losses of joint ventures (note (vi))	171	3,584	134	3,889	–	3,889
	241	5,047	(229)	5,059	2,721	7,780

Notes:

(i) *The revenue figures above are arrived at after the elimination of inter-segment revenues, in the amounts of HK$315 million (2016: HK$327 million) and HK$1,206 million (2016: HK$2,368 million) in relation to the reportable segments under property leasing and others, respectively.*

(ii) *Revenue for the property leasing segment comprises rental income of HK$5,125 million (2016: HK$5,022 million) and rental-related income of HK$553 million (2016: HK$537 million), which in aggregate amounted to HK$5,678 million for the year (2016: HK$5,559 million).*

(iii) *Unallocated head office and corporate expenses, net of HK$1,559 million for the year (2016: HK$456 million) is stated after taking into account the net fair value gain on interest rate swap contracts during the year of HK$21 million (2016: HK$597 million)(see note 7), and the loss of HK$371 million (2016: HK$12 million) arising from the reclassification from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and guaranteed notes and their underlying interest rate swap contracts and cross currency interest rate swap contracts during the year and other reclassification (see note 7). Excluding the aforementioned gains/(losses), the Group's unallocated head office and corporate expenses, net for the year amounted to HK$1,209 million (2016: HK$1,041 million).*

(iv) *Included in the aggregate gain from the sales of property interests is an amount of HK$1,385 million (2016: HK$1,925 million) representing the aggregate amount of the Group's (1) net gain on transfer of subsidiaries holding investment properties of HK$159 million (2016: HK$1,956 million) (see note 7); (2) net gain on disposal of investment properties of HK$1,211 million (2016: net loss of HK$32 million) (see note 7) (before deducting/adding back the amount of net gain/(loss) attributable to non-controlling interests); and (3) attributable share of gain on disposal of investment properties by an associate of HK$15 million (2016: HK$1 million). After deducting the amount of net gain attributable to non-controlling interests of HK$99 million (2016: adding back the amount of net loss attributable to non-controlling interests of HK$14 million), and adding back the Group's attributable share of cumulative fair value gains on the disposal of investment properties up to the time of disposals of HK$2,712 million (2016: HK$1,991 million), an aggregate gain of HK$3,998 million (2016: HK$3,930 million) contributing to the Group's underlying profit from the disposal of investment properties for the year ended 31 December 2017 was recognised.*

15 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes: (continued)

(v) The Group's share of profits less losses of associates contributed from the property leasing segment during the year of HK$1,562 million (2016: HK$1,463 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$950 million (2016: HK$867 million).

The Group's share of losses less profits of associates contributed from other businesses segment during the year of HK$119 million (2016: HK$363 million) includes the Group's share of profit after tax contributed from hotel operation and management during the year of HK$93 million (2016: HK$73 million).

(vi) The Group's share of profits less losses of joint ventures contributed from the property leasing segment during the year of HK$4,112 million (2016: HK$3,584 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$2,929 million (2016: HK$2,436 million).

The Group's share of profits less losses of joint ventures contributed from other businesses segment during the year of HK$155 million (2016: HK$134 million) includes the Group's share of profit after tax contributed from hotel operation and management during the year of HK$138 million (2016: HK$130 million).

(b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's investment properties, other property, plant and equipment, interests in associates and joint ventures (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of investment properties and other property, plant and equipment, and the location of operations in the case of interests in associates and joint ventures.

	Revenue from external customers		Specified non-current assets	
	For the year ended 31 December		At 31 December	
	2017 HK$ million	2016 HK$ million	**2017 HK$ million**	2016 HK$ million
Hong Kong	**15,760**	16,114	**223,952**	187,715
Mainland China	**8,693**	9,454	**53,442**	38,218
	24,453	25,568	**277,394**	225,933
	(note 5)	(note 5)		

15 Segment reporting (continued)

(c) Other segment information

	Depreciation		(Reversal of impairment loss)/ impairment loss on trade debtors	
	For the year ended 31 December		For the year ended 31 December	
	2017	2016	**2017**	2016
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**7**	11	**–**	–
Property leasing	**4**	6	**2**	(5)
Department store operation	**33**	25	**–**	–
Other businesses	**50**	64	**(4)**	16
	94	106	**(2)**	11
	(note 8(d))	(note 8(d))	**(note 7)**	(note 7)

16 Investment properties and other property, plant and equipment

(a) Reconciliation of carrying amount

	Investment properties HK$ million	Investment properties under development HK$ million	Subtotal HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Others HK$ million	Subtotal HK$ million	Total HK$ million
Cost or valuation:									
At 1 January 2016	117,804	10,793	128,597	838	200	984	1,278	3,300	131,897
Exchange adjustments	(2,009)	(303)	(2,312)	–	(5)	–	(17)	(22)	(2,334)
Additions	2,783	916	3,699	1	–	–	79	80	3,779
Disposals									
– through transfers of subsidiaries (note 34)	(2,376)	–	(2,376)	–	–	–	(4)	(4)	(2,380)
– others	(304)	–	(304)	–	–	–	(46)	(46)	(350)
Written off	–	–	–	–	–	–	(3)	(3)	(3)
Surplus on revaluation	4,836	2,177	7,013	–	–	–	–	–	7,013
Transfer to investment properties under development	–	244	244	(189)	–	(213)	–	(402)	(158)
Transfer from inventories	123	386	509	–	7	–	–	7	516
Transfer to asset of the disposal group classified as held for sale (note 32)	(3,220)	–	(3,220)	–	–	–	–	–	(3,220)
At 31 December 2016	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
Representing:									
Cost	–	–	–	650	202	771	1,287	2,910	2,910
Valuation	117,637	14,213	131,850	–	–	–	–	–	131,850
	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
Accumulated depreciation and impairment losses:									
At 1 January 2016	–	–	–	306	42	201	1,059	1,608	1,608
Exchange adjustments	–	–	–	–	–	–	(16)	(16)	(16)
Charge for the year (note 8(d))	–	–	–	16	4	14	72	106	106
Written back on disposals									
– through transfers of subsidiaries (note 34)	–	–	–	–	–	–	(4)	(4)	(4)
– others	–	–	–	–	–	–	(42)	(42)	(42)
Transfer to investment properties under development	–	–	–	(106)	–	(52)	–	(158)	(158)
Written off	–	–	–	–	–	–	(3)	(3)	(3)
At 31 December 2016	–	–	–	216	46	163	1,066	1,491	1,491
Net book value:									
At 31 December 2016	117,637	14,213	131,850	434	156	608	221	1,419	133,269

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

(a) Reconciliation of carrying amount (continued)

	Investment properties HK$ million	Investment properties under development HK$ million	Subtotal HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Others HK$ million	Subtotal HK$ million	Total HK$ million
Cost or valuation:									
At 1 January 2017	117,637	14,213	131,850	650	202	771	1,287	2,910	134,760
Exchange adjustments	1,955	47	2,002	–	4	–	10	14	2,016
Additions									
– through acquisition of a subsidiary	–	–	–	–	–	–	1	1	1
– others	759	27,584(*)	28,343	2	1	–	43	46	28,389
Disposals									
– through transfers of subsidiaries (note 34)	(521)	–	(521)	(652)	–	(767)	(50)	(1,469)	(1,990)
– others	(3,055)	–	(3,055)	–	–	–	(105)	(105)	(3,160)
Written off	–	–	–	–	–	(4)	(6)	(10)	(10)
Surplus on revaluation	8,848	1,063	9,911	–	–	–	–	–	9,911
Transfer to investment properties	2,241	(2,241)	–	–	–	–	–	–	–
Transfer from inventories	599	3,544	4,143	–	7	–	–	7	4,150
At 31 December 2017	128,463	44,210	172,673	–	214	–	1,180	1,394	174,067
Representing:									
Cost	–	–	–	–	214	–	1,180	1,394	1,394
Valuation	128,463	44,210	172,673	–	–	–	–	–	172,673
	128,463	44,210	172,673	–	214	–	1,180	1,394	174,067
Accumulated depreciation and impairment losses:									
At 1 January 2017	–	–	–	216	46	163	1,066	1,491	1,491
Exchange adjustments	–	–	–	–	–	–	7	7	7
Charge for the year (note 8(d))	–	–	–	10	4	10	70	94	94
Written back on disposals									
– through transfers of subsidiaries (note 34)	–	–	–	(226)	–	(169)	(47)	(442)	(442)
– others	–	–	–	–	–	–	(97)	(97)	(97)
Acquisition of a subsidiary	–	–	–	–	–	–	1	1	1
Written off	–	–	–	–	–	(4)	(6)	(10)	(10)
At 31 December 2017	–	–	–	–	50	–	994	1,044	1,044
Net book value:									
At 31 December 2017	128,463	44,210	172,673	–	164	–	186	350	173,023

(*) *Including the carrying amount of HK$2,410 million in respect of a land site in mainland China acquired by the Group during the year ended 31 December 2017, but in relation to which certificate of land delivery (土 地 交 接 書) was obtained by the Group on 2 February 2018.*

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

(b) The analysis of net book value of properties is as follows:

	2017 HK$ million	2016 HK$ million
In Hong Kong		
– under long leases	**18,217**	14,039
– under medium-term leases	**111,810**	86,733
	130,027	100,772
Outside Hong Kong		
– under long leases	**10**	10
– under medium-term leases	**42,800**	32,266
	42,810	32,276
	172,837	133,048

(c) Fair value measurement of investment properties and investment properties under development

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

(c) Fair value measurement of investment properties and investment properties under development (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2017	Fair value measurements at 31 December 2017 categorised into	
		Level 2	Level 3
	HK$ million	HK$ million	HK$ million
Recurring fair value measurement			
Investment properties:			
– In Hong Kong	**98,227**	**–**	**98,227**
– In mainland China	**30,236**	**–**	**30,236**
Investment properties under development:			
– In Hong Kong	**31,709**	**–**	**31,709**
– In mainland China	**12,501**	**8,123**	**4,378**

	Fair value at 31 December 2016	Fair value measurements at 31 December 2016 categorised into	
		Level 2	Level 3
	HK$ million	HK$ million	HK$ million
Recurring fair value measurement			
Investment properties:			
– In Hong Kong	89,986	–	89,986
– In mainland China	27,651	–	27,651
Investment properties under development:			
– In Hong Kong	9,652	–	9,652
– In mainland China	4,561	4,561	–

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (other than the investment properties transferred to the disposal group for the year ended 31 December 2016 (see note 32)). The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.

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

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation process

The Group's investment properties and investment properties under development were revalued at 31 December 2017 by Cushman & Wakefield Limited (formerly known as DTZ Cushman & Wakefield Limited), an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis.

The Group's management has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation is performed at each interim and annual reporting date and is reviewed and approved by senior management.

Valuation methodologies

The valuations of completed investment properties in Hong Kong and mainland China were based on income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of the properties after expiry of the current lease.

For certain investment properties in Hong Kong and mainland China which are still under development, the valuations were determined on redevelopment basis and by taking into account the fair value of the completed investment property and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

Inputs used in Level 2 fair value measurement

The valuations of investment properties under development in mainland China were determined using direct market comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis based on market data which is publicly available.

Inputs used in Level 3 fair value measurement

Below is a table which presents the significant unobservable inputs:

Completed investment properties

	Range of capitalisation rates		Range of occupancy rates	
	2017 %	2016 %	**2017 %**	2016 %
In Hong Kong				
– Retail	**2.75%-5.5%**	2.75%-5.5%	**38%-100%**	38%-100%
– Office/industrial	**3.0%-4.0%**	3.0%-4.0%	**90%-100%**	84%-99%
– Residential	**2.25%**	2.25%-2.75%	**92%**	92%-100%
In mainland China				
– Retail	**5.5%-8.0%**	5.5%-8.0%	**66%-100%**	33%-100%
– Office	**6.0%-7.5%**	6.5%-7.5%	**50%-98%**	90%-98%

The fair value measurement of completed investment properties is positively correlated to the occupancy rate and negatively correlated to the capitalisation rate.

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

(c) Fair value measurement of investment properties and investment properties under development (continued)

Investment properties under development

	Estimated project development cost	
	2017 HK$ million	2016 HK$ million
In Hong Kong	**50 – 3,255**	50 – 1,178
In mainland China	**852**	–

The fair value measurement of investment properties under development is negatively correlated to the estimated cost to completion, being determined as the estimated project development cost less the actual amount of project development cost incurred up to the end of the reporting period.

Valuation

As a result, a net fair value gain of HK$9,911 million (2016: HK$7,013 million) and deferred tax charge in respect of the fair value change on investment properties in mainland China of HK$238 million (2016: HK$445 million) have been recognised in the consolidated statement of profit or loss for the year (see note 14(b)).

Including the net fair value gains on the investment properties held by the Group's associates and joint ventures for the year ended 31 December 2017, the Group's attributable share of the aggregate net fair value gains on investment properties and investment properties under development held by subsidiaries, associates and joint ventures for the year ended 31 December 2017 amounted to HK$13,501 million (2016: HK$9,866 million) (net of deferred tax), of which (i) an amount of HK$12,564 million (2016: HK$8,446 million) relates to investment properties and investment properties under development in Hong Kong; and (ii) an amount of HK$937 million (2016: HK$1,420 million) relates to investment properties in mainland China.

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

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation (continued)

A reconciliation of the abovementioned figures to the Group's fair value gain on investment properties and investment properties under development held by subsidiaries of HK$9,911 million (2016: HK$7,013 million) (before deducting deferred tax and non-controlling interests' attributable share), as referred to above, is as follows:

	For the year ended 31 December 2017		
	Hong Kong HK$ million	**Mainland China HK$ million**	**Total HK$ million**
Fair value gain on investment properties and investment properties under development held by			
– subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 14(b))	**8,775**	**1,136**	**9,911**
Less:			
Deferred tax (note 14(b))	**–**	**(238)**	**(238)**
Non-controlling interests' attributable share of the fair value gain (net of deferred tax)	**(51)**	**–**	**(51)**
(after deducting non-controlling interests' attributable share and deferred tax)	**8,724**	**898**	**9,622**
– associates (Group's attributable share) (note 14(b))	**950**	**–**	**950**
– joint ventures (Group's attributable share) (note 14(b))	**2,890**	**39**	**2,929**
	12,564	**937**	**13,501**

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

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation (continued)

	For the year ended 31 December 2016		
	Hong Kong HK$ million	Mainland China HK$ million	Total HK$ million
Fair value gain on investment properties and investment properties under development held by			
– subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 14(b))	5,169	1,844	7,013
Less:			
Deferred tax (note 14(b))	–	(445)	(445)
Non-controlling interests' attributable share of the fair value gain (net of deferred tax)	(5)	–	(5)
(after deducting non-controlling interests' attributable share and deferred tax)	5,164	1,399	6,563
– associates (Group's attributable share) (note 14(b))	867	–	867
– joint ventures (Group's attributable share) (note 14(b))	2,415	21	2,436
	8,446	1,420	9,866

(d)

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

17 Interest in subsidiaries

Details of the principal subsidiaries at 31 December 2017 which materially affected the results, assets or liabilities of the Group are set out on pages 241 to 247.

18 Interest in associates

	2017 HK$ million	2016 HK$ million
Unlisted		
Share of net assets	**2,842**	2,184
Amounts due from associates	**3,150**	2,094
	5,992	4,278
Listed in Hong Kong		
Share of net assets, including goodwill on acquisition	**53,514**	49,658
	59,506	53,936
Market value of listed shares	**94,765**	77,999

Except for the amounts due from associates of HK$91 million (2016: HK$69 million) which are interest-bearing at Hong Kong dollar prime rate less 3% (2016: Hong Kong dollar prime rate less 3%) per annum, all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered within one year from the end of the reporting period and are neither past due nor impaired.

18 Interest in associates (continued)

All of the associates are accounted for using the equity method in the consolidated financial statements. Details of the principal associates at 31 December 2017 are set out on page 248.

Summarised financial information of the material associate, adjusted for any differences in accounting policies and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	The Hong Kong and China Gas Company Limited (note)	
	2017 HK$ million	2016 HK$ million
Gross amounts of the associate's:		
Current assets	**24,366**	21,420
Non-current assets	**106,799**	95,431
Current liabilities	**(31,948)**	(19,500)
Non-current liabilities	**(28,886)**	(34,363)
Equity	**70,331**	62,988
Revenue	**32,477**	28,557
Profit from continuing operation	**9,347**	8,270
Other comprehensive income	**3,498**	(2,390)
Total comprehensive income	**12,845**	5,880
Dividend received from the associate	**1,912**	1,738
Reconciled to the Group's interest in the associate:		
Gross amount of net assets of the associate	**70,331**	62,988
Carrying amount of perpetual capital securities	**(2,354)**	(2,354)
Non-controlling interests	**(7,453)**	(6,612)
Equity attributable to equity shareholders	**60,524**	54,022
Group's interest	**41.53%**	41.52%
Group's share of the associate's equity attributable to equity shareholders	**25,135**	22,430
Goodwill	**17,519**	17,517
Carrying amount in the consolidated financial statements	**42,654**	39,947
Market value of the listed shares	**88,986**	72,554

Note: The principal activities of The Hong Kong and China Gas Company Limited are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses. Its distinctive business nature forms a supplement to the Group's core business of property development and property investment to smooth out the cyclicality of the Group's property development business.

18 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2017 HK$ million	2016 HK$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**16,852**	13,989
Aggregate amounts of the Group's share of those associates:		
Profit from continuing operation	**1,551**	843
Other comprehensive income	**83**	(28)
Total comprehensive income	**1,634**	815

19 Interest in joint ventures

	2017 HK$ million	2016 HK$ million
Share of net assets	**34,159**	30,489
Less: Impairment loss	**(2)**	–
	34,157	30,489
Amounts due from joint ventures	**10,708**	8,239
	44,865	38,728

The amounts due from joint ventures are unsecured, interest-free, have no fixed terms of repayment and are not expected to be recovered within one year from the end of the reporting period except for the amounts of HK$14 million (2016: HK$17 million) and HK$271 million (2016: HK$358 million) which are interest-bearing at Hong Kong dollar prime rate (2016: Hong Kong dollar prime rate) per annum and Hong Kong Interbank Offered Rate plus 0.5% (2016: Hong Kong Interbank Offered Rate plus 0.5%) per annum respectively, and HK$650 million (2016: HK$650 million) which is secured, interest-bearing at Hong Kong Interbank Offered Rate plus 1.4% (2016: Hong Kong Interbank Offered Rate plus 1.4%) per annum and is wholly repayable on 18 November 2021. The balances are neither past due nor impaired.

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. Details of the principal joint ventures at 31 December 2017 are set out on page 249.

19 Interest in joint ventures (continued)

Summarised financial information of the material joint venture, adjusted for any differences in accounting policies and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Central Waterfront Property Investment Holdings Limited (note)	
	2017 HK$ million	2016 HK$ million
Gross amounts of the joint venture's:		
Current assets	**771**	803
Non-current assets	**103,425**	95,719
Current liabilities	**(2,141)**	(2,020)
Non-current liabilities	**(18,346)**	(18,276)
Equity	**83,709**	76,226
Included in the above assets and liabilities:		
Cash and cash equivalents	**373**	351
Non-current financial liabilities (excluding trade and other payables and provisions)	**(17,382)**	(17,363)
Revenue	**6,175**	5,936
Increase in fair value of investment properties	**7,707**	7,523
Profit from continuing operation	**11,202**	10,837
Other comprehensive income	**(19)**	46
Total comprehensive income	**11,183**	10,883
Dividend received from the joint venture	**1,266**	1,180
Included in the above profit:		
Depreciation and amortisation	**(71)**	(74)
Interest income	**1**	1
Interest expense	**(421)**	(396)
Income tax expense	**(694)**	(651)
Reconciled to the Group's interest in the joint venture:		
Gross amount of net assets of the joint venture	**83,709**	76,226
Group's interest	**34.21%**	34.21%
Group's share of net assets of the joint venture and its carrying amount in the consolidated financial statements	**28,637**	26,077

Note: *Central Waterfront Property Investment Holdings Limited was incorporated in the British Virgin Islands by the Group and its joint venture partners and operates in Hong Kong. Its subsidiaries are mainly engaged in property investment and hotel operation in the International Finance Centre complex in Hong Kong.*

19 Interest in joint ventures (continued)

Aggregate information of joint ventures that are not individually material:

	2017 HK$ million	2016 HK$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**16,228**	12,651
Aggregate amounts of the Group's share of those joint ventures:		
Profit from continuing operation	**546**	181
Other comprehensive income	**291**	(249)
Total comprehensive income	**837**	(68)

20 Derivative financial instruments

	2017		2016	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Cash flow hedges:				
Cross currency interest rate swap contracts (note 4(f)(i))	**111**	**393**	201	898
Interest rate swap contracts (note 4(f)(i))	**–**	**198**	–	326
Total cash flow hedges	**111**	**591**	201	1,224
Fair value through profit or loss:				
Cross currency interest rate swap contracts (note 4(f)(i))	**–**	**7**	–	–
Interest rate swap contracts (note 4(f)(i))	**–**	**230**	–	–
Other derivatives (note 4(f)(i))	**67**	**–**	164	–
	67	**237**	164	–
	178	**828**	365	1,224
Representing:				
Non-current portion	**111**	**746**	358	906
Current portion (notes 24 and 27)	**67**	**82**	7	318
	178	**828**	365	1,224

20 Derivative financial instruments (continued)

(a) Derivatives under cash flow hedges

Swap contracts which have been entered into with certain counterparty banks comprise:

– cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes (see note 29) denominated in United States dollars, Pound Sterling and Singapore dollars with aggregate principal amounts of US$629 million, £50 million and S$200 million at 31 December 2017 (2016: US$672 million, £50 million and S$200 million and the bank loans denominated in Japanese Yen in the amount of ¥10,000 million but which were fully repaid during the year ended 31 December 2017); and

– interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars with an aggregate principal amount of HK$11,450 million at 31 December 2017 (2016: HK$11,450 million), but of which interest rate swap contracts of an aggregate notional amount of HK$3,850 million were under cash flow hedges at 31 December 2017.

The abovementioned cross currency interest rate swap contracts and interest rate swap contracts will mature between 19 September 2018 and 20 October 2026 (2016: between 28 February 2017 and 20 October 2026).

(b) Derivatives to hedge against foreign currency risk

At 31 December 2017, cross currency interest rate swap contracts have been entered into with a counterparty bank to hedge against the foreign currency risk in respect of the guaranteed notes (see note 29) denominated in Japanese Yen in the principal amount of ¥2,000 million (2016: Nil).

(c) Other derivatives

The carrying value of other derivatives at 31 December 2017 and 2016 represents the fair value of the remaining unexercised bonus warrants of Miramar Hotel and Investment Company, Limited (a listed associate of the Group) at the end of the reporting period. During the year ended 31 December 2017, 24,780,330 of such bonus warrants at aggregate fair value of HK$80 million were exercised by the Group.

21 Other financial assets

	2017 HK$ million	2016 HK$ million
Available-for-sale securities		
Unlisted (note 4(f)(ii))	**28**	378
Listed:		
– in Hong Kong	**2,708**	2,853
– outside Hong Kong	**313**	253
	3,049	3,484
Held-to-maturity debt securities (note 4(f)(ii))		
Listed:		
– in Hong Kong	**242**	554
– outside Hong Kong	**243**	529
	485	1,083
Instalments receivable	**7,846**	6,287
Loans receivable	**557**	–
	11,937	10,854
Market value of listed available-for-sale securities (note 4(f)(i))	**3,021**	3,106
Market value of listed held-to-maturity debt securities (note 4(f)(ii))	**508**	1,136
Fair value of individually impaired available-for-sale securities	**223**	620

(a) Available-for-sale securities

At 31 December 2017, certain of the Group's listed available-for-sale securities were individually determined to be impaired on the basis of significant or prolonged decline in their fair value below cost. Impairment loss on available-for-sale securities is recognised in profit or loss in accordance with the accounting policy set out in note 2(n)(i).

At 31 December 2017, the Group's available-for-sale securities were not pledged to any third parties.

At 31 December 2016, included in the carrying amount of available-for-sale securities was an aggregate amount of HK$65 million being pledged in favour of a financial institution for credit facilities granted to a wholly-owned subsidiary of the Group and which were not utilised.

21 Other financial assets (continued)

(b) Held-to-maturity debt securities

Held-to-maturity debt securities are listed, issued by corporate entities with sound credit standing and were neither past due nor impaired at 31 December 2017 and 2016.

At 31 December 2017, the Group's held-to-maturity debt securities were not pledged to any third parties.

At 31 December 2016, included in the carrying amount of held-to-maturity debt securities was an aggregate amount of HK$346 million being pledged in favour of a financial institution for credit facilities granted to a wholly-owned subsidiary of the Group and which were not utilised.

(c) Instalments receivable

Instalments receivable represents the proceeds receivable from the sale of properties due after one year from the end of the reporting period. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within one year from the end of the reporting period is included in "Trade and other receivables" under current assets (see note 24).

Instalments receivable, which are due within one year (see note 24) and after more than one year from the end of the reporting period, included an amount of HK$6,424 million (2016: HK$4,817 million) representing the aggregate attributable amounts of the outstanding mortgage loans from the Group to the property buyers and which were already drawn down by the property buyers at the end of the reporting period.

(d) Loans receivable

At 31 December 2017, loans receivable included amounts of HK$380 million (2016: Nil) which is secured and interest-bearing at Hong Kong Interbank Offered Rate plus 2.25% per annum, HK$45 million (2016: Nil) which is secured and interest-bearing at 3% per annum and HK$132 million (2016: Nil) which is unsecured and interest-bearing at 5% per annum. The balances were due after one year from the end of the reporting period and were neither past due nor impaired.

The balances of loans receivable which were expected to be recovered within one year from the end of the reporting period have been classified as "Trade and other receivables" under current assets (see note 24).

22 Deposits for acquisition of properties

The Group's deposits for acquisition of properties mainly include HK$332 million (2016: HK$3,591 million) and HK$561 million (2016: HK$561 million) paid relating to the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

In respect of the deposit paid relating to the land in Macau, the conditions precedent for the acquisition have not yet been fulfilled. The parties to the agreement have agreed to extend the date for the fulfillment of the conditions precedent. If the acquisition shall not proceed, then the Group is entitled to recover the deposit paid.

23 Inventories

	2017 HK$ million	2016 HK$ million
Property development		
Leasehold land held for development for sale	**10,577**	10,334
Properties held for/under development for sale	**57,124**	54,440
Completed properties for sale	**5,820**	10,388
	73,521	75,162
Other operations		
Trading stocks	**81**	80
	73,602	75,242

The analysis of carrying value of inventories for property development is as follows:

	2017 HK$ million	2016 HK$ million
In Hong Kong		
– under long leases	**30,088**	26,179
– under medium-term leases	**39,269**	35,628
	69,357	61,807
In mainland China		
– under long leases	**2,383**	5,098
– under medium-term leases	**1,781**	8,257
	4,164	13,355
	73,521	75,162
Including:		
– Properties expected to be completed after more than one year	**49,504**	49,667

24 Trade and other receivables

	2017 HK$ million	2016 HK$ million
Instalments receivable (note 21(c))	**2,430**	1,561
Loans receivable (note 21(d))	**866**	293
Debtors, prepayments and deposits	**15,926**	8,686
Gross amount due from customers for contract work (note 25)	**28**	22
Derivative financial instruments (note 20)	**67**	7
Amounts due from associates	**10**	6
Amounts due from joint ventures	**125**	76
	19,452	10,651

All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits, prepayments and other receivables of HK$8,011 million (2016: HK$2,866 million) which are expected to be recovered after more than one year from the end of the reporting period.

At 31 December 2017, loans receivable comprised amounts of (i) HK$138 million which is secured and interest-bearing at 12% per annum and wholly recoverable on 30 June 2018; (ii) HK$310 million which is unsecured, interest-bearing at 6% per annum and wholly recoverable on 5 May 2018; (iii) HK$146 million which is unsecured, interest-bearing at 6% per annum and wholly recoverable on 12 May 2018; and (iv) HK$272 million which is unsecured, interest-bearing at 4.35% per annum and wholly recoverable on 29 May 2018 (2016: loans receivable comprised amounts of HK$114 million and HK$179 million which were secured, interest-bearing at Hong Kong Interbank Offered Rate plus 4% per annum and 12% per annum, respectively). The balances are expected to be recovered within one year from the end of the reporting period, and are neither past due nor impaired.

The amounts due from associates and joint ventures are unsecured and interest-free, have no fixed terms of repayment and are neither past due nor impaired.

24 Trade and other receivables (continued)

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables) net of allowance for doubtful debts is as follows:

	2017 HK$ million	2016 HK$ million
Current or up to 1 month overdue	**2,533**	2,426
More than 1 month overdue and up to 3 months overdue	**23**	44
More than 3 months overdue and up to 6 months overdue	**12**	13
More than 6 months overdue	**33**	55
	2,601	2,538

Details of the Group's credit policy are set out in note 4(a).

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(n)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2017 HK$ million	2016 HK$ million
At 1 January	**52**	83
Exchange differences	**1**	(2)
(Reversal of impairment loss)/impairment loss recognised (notes 7 and 15(c))	**(2)**	11
Uncollectible amounts written off	**(1)**	(40)
At 31 December	**50**	52

At 31 December 2017, the Group's trade debtors of HK$50 million (2016: HK$52 million) were individually determined to be impaired. The individually impaired receivables relate to customers who were in financial difficulties and management assessed that only a portion of these receivables are expected to be recovered. Accordingly, the Group has recognised impairment losses during the year in relation to the amounts which were considered to be irrecoverable.

24 Trade and other receivables (continued)

(c) Trade debtors that are not impaired

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

	2017 HK$ million	2016 HK$ million
Neither past due nor impaired	**2,307**	1,796
Less than 1 month past due	**226**	630
Over 1 month but less than 3 months past due	**23**	44
	249	674
	2,556	2,470

Receivables which were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables which were past due but not impaired relate to customers who have a good track record of trading with the Group. Based on past experience, management considers that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

25 Gross amount due from/(to) customers for contract work

	2017 HK$ million	2016 HK$ million
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus profits less losses	**289**	162
Progress billings	**(270)**	(142)
Net contract work	**19**	20
Represented by:		
Gross amount due from customers for contract work (note 24)	**28**	22
Gross amount due to customers for contract work (note 27)	**(9)**	(2)
	19	20

26 Cash and bank balances and movements in the carrying amounts of items relating to financing activities

(a) Cash and cash equivalents comprise:

	2017 HK$ million	2016 HK$ million
Deposits with banks and other financial institutions	**14,771**	11,672
Cash at bank and in hand	**9,902**	11,294
Cash and bank balances in the consolidated statement of financial position	**24,673**	22,966
Less:		
Deposits with banks and other financial institutions over three months of maturity at acquisition	**(1,139)**	(7,432)
Cash restricted for use	**(2,670)**	(2,695)
Cash and cash equivalents in the consolidated cash flow statement	**20,864**	12,839

At 31 December 2017, cash and bank balances in the consolidated statement of financial position included balances of bank deposits in mainland China which were subject to exchange controls, and of which an amount of HK$2,670 million (2016: HK$2,695 million) was restricted for use and primarily comprised the guarantee deposits for the construction of certain property development projects under pre-sales in mainland China.

26 Cash and bank balances and movements in the carrying amounts of items relating to financing activities (continued)

(b) Movements in the carrying amounts of items relating to financing activities

	Bank loans HK$ million (note 28)	Guaranteed notes HK$ million (note 29)	Derivative financial instruments (other than other derivatives) HK$ million (note 20)	Amount due to a fellow subsidiary HK$ million (note 30)	Loans from non-controlling interests, other loans, and payables HK$ million	Total HK$ million
At 1 January 2017	**42,478**	**13,606**	**1,023**	**316**	**2,043**	**59,466**
Changes from financing cash flows:						
Repayment to non-controlling interests, net	–	–	–	–	(75)	(75)
Proceeds from new bank loans/guaranteed notes	60,741	1,339	–	–	–	62,080
Repayment of bank loans/guaranteed notes	(34,421)	(5,767)	–	–	–	(40,188)
Increase in amount due to a fellow subsidiary	–	–	–	1,438	–	1,438
Interest and other borrowing costs paid during the year	(700)	(558)	(228)	(9)	(67)	(1,562)
Total changes from financing cash flows	25,620	(4,986)	(228)	1,429	(142)	21,693
Exchange adjustments	312	189	–	–	–	501
Changes in fair value	–	–	(306)	–	–	(306)
Other changes:						
Interest expenses (before capitalisation) for the year (note 8(a))	601	464	233	9	67	1,374
Other borrowing costs (before capitalisation) for the year (note 8(a))	156	4	–	–	–	160
Others	10	96	(5)	–	395	496
Total other changes	767	564	228	9	462	2,030
At 31 December 2017	**69,177**	**9,373**	**717**	**1,754**	**2,363**	**83,384**

27 Trade and other payables

	2017 HK$ million	2016 HK$ million
Creditors and accrued expenses (other than those transferred to the disposal group (see note 32))	**7,606**	7,748
Gross amount due to customers for contract work (note 25)	**9**	2
Rental and other deposits (other than those transferred to the disposal group (see note 32))	**1,542**	1,748
Forward sales deposits received	**9,987**	8,353
Derivative financial instruments (note 20)	**82**	318
Amounts due to associates	**2,878**	401
Amounts due to joint ventures	**1,251**	2,653
	23,355	21,223

(a) All of the Group's trade and other payables are expected to be settled within one year or are repayable on demand except for an amount of HK$924 million (2016: HK$819 million) which is expected to be settled after more than one year from the end of the reporting period. At 31 December 2016, included in the abovementioned balance was an amount of HK$22 million which was interest-bearing at 1.75% per annum.

(b) At the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables) is as follows:

	2017 HK$ million	2016 HK$ million
Due within 1 month or on demand	**1,765**	1,874
Due after 1 month but within 3 months	**526**	508
Due after 3 months but within 6 months	**268**	512
Due after 6 months	**2,244**	3,055
	4,803	5,949

(c) The amounts due to associates and joint ventures are unsecured, interest-free and have no fixed terms of repayment except for an amount due to a joint venture of HK$244 million (2016: Nil) which is unsecured, interest-bearing at 4% per annum and is wholly repayable on 31 October 2018.

28 Bank loans

At 31 December 2017, bank loans were repayable as follows:

	2017 HK$ million	2016 HK$ million
Within 1 year and included in current liabilities	**23,506**	14,392
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	**15,639**	5,641
– After 2 years but within 5 years	**25,871**	22,445
– After 5 years	**4,161**	–
	45,671	28,086
	69,177	42,478

At 31 December 2017 and 2016, all of the bank loans were unsecured.

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain ratios in the Group's statement of financial position and minimum net assets requirement, as are commonly found in lending arrangements with financial institutions. Any breach of the covenants by the Group would result in the drawdown facilities to become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 4(b). At 31 December 2017 and 2016, none of the covenants relating to the drawdown facilities had been breached.

29 Guaranteed notes

	2017 HK$ million	2016 HK$ million
Guaranteed notes due 2019 – 2022	**1,456**	1,732
Guaranteed notes due 2019	**3,902**	3,870
Guaranteed notes issued pursuant to the Medium Term Note Programme	**4,015**	8,004
	9,373	13,606

At 31 December 2017, the guaranteed notes were repayable as follows:

	2017 HK$ million	2016 HK$ million
Within 1 year and included in current liabilities	**1,169**	5,760
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	**5,202**	1,071
– After 2 years but within 5 years	**1,279**	6,236
– After 5 years	**1,723**	539
	8,204	7,846
	9,373	13,606

(a) Guaranteed notes due 2019 – 2022

On 25 July 2007, the Company through a wholly-owned subsidiary issued guaranteed loan notes (the “2007 Notes”) with aggregate principal amounts of US$325 million and £50 million under private placements in the United States of America and in Europe. At 31 December 2017, the 2007 Notes with principal amounts of US$119 million and £50 million bear fixed interest rates ranging from 6.28% to 6.38% per annum payable semi-annually in arrears (2016: the 2007 Notes with principal amounts of (i) US$152 million and £50 million bore fixed interest rates ranging from 6.18% to 6.38% per annum payable semi-annually in arrears, but of which an amount of US$33 million was repaid during the year; and (ii) US$10 million bore floating rate by reference to 3-month London Interbank Offered Rate payable quarterly in arrears but which was fully repaid during the year). The 2007 Notes are guaranteed by the Company and will mature between 25 July 2019 and 25 July 2022 (2016: 25 July 2017 and 25 July 2022).

(b) Guaranteed notes due 2019

On 17 September 2009, the Company through a wholly-owned subsidiary issued guaranteed notes (the “2009 Notes”) with an aggregate principal amount of US$500 million at an issue price equal to 99.795% of the principal amount of the 2009 Notes. The 2009 Notes bear fixed interest rate at 5.50% per annum payable semi-annually in arrears. The 2009 Notes are guaranteed by the Company and will mature on 17 September 2019.

29 Guaranteed notes (continued)

(c) Guaranteed notes issued pursuant to the Medium Term Note Programme (the "Programme")

The carrying amounts of the guaranteed notes issued under the Programme and which remained outstanding at 31 December 2017 were as follows:

(i) On 19 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of S$200 million. These notes bear fixed coupon rate of 4.00% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 19 September 2018.

(ii) On 23 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$220 million. These notes bear a fixed coupon rate of 4.03% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 23 September 2021.

(iii) On 26 September 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$656 million. These notes bear a fixed coupon rate of 4.03% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 27 September 2021.

(iv) On 20 October 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US$10 million. These notes bear a fixed coupon rate of 5.20% per annum payable annually in arrears, are guaranteed by the Company and will mature on 20 October 2026.

(v) On 28 October 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$250 million. These notes bear a fixed coupon rate of 4.03% per annum payable annually in arrears, are guaranteed by the Company and will mature on 28 October 2021.

(vi) On 10 November 2011, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$309 million. These notes bear a fixed coupon rate of 4.80% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 10 November 2031.

(vii) On 8 November 2017, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$1,000 million. These notes bear a fixed coupon rate of 3.55% per annum payable annually in arrears, are guaranteed by the Company and will mature on 8 November 2032.

(viii) On 30 November 2017, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$200 million. These notes bear a fixed coupon rate of 3.53% per annum payable annually in arrears, are guaranteed by the Company and will mature on 22 November 2032.

(ix) On 6 December 2017, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of ¥2,000 million. These notes bear a fixed coupon rate of 0.80% per annum payable annually in arrears, are guaranteed by the Company and will mature on 6 December 2032.

30 Amount due to a fellow subsidiary

At 31 December 2017 and 2016, all of the amount due to a fellow subsidiary is unsecured, interest-bearing and is not expected to be settled within one year from the end of the reporting period with no fixed terms of repayment.

31 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances during the year of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out in note 39(b).

(b) Nature and purpose of reserves

(i) Property revaluation reserve

The property revaluation reserve relates to other land and buildings. Where other land and buildings is reclassified to investment properties, the cumulative increase in fair value at the date of reclassification is included in the property revaluation reserve, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(y).

(iii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies set out in notes 2(g) and 2(n)(i).

(iv) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of a derivative financial instrument which is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, in accordance with the accounting policy adopted for cash flow hedges in note 2(i).

(v) Other reserves

Other reserves mainly comprise the statutory reserve set up for enterprises established in mainland China. According to the relevant rules and regulations in The People's Republic of China ("PRC") applicable to wholly foreign-owned enterprises, a wholly foreign-owned enterprise is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprise's registered capital.

32 Disposal group

At 31 December 2016, the Group had agreed to transfer Beijing Henderson Centre (being an investment property in Beijing, mainland China) and presented the disposal group as held for sale as follows:

	2016 HK$ million
Asset	
Investment properties (note 16(a))	3,220
	3,220
Liabilities	
Creditors and accrued expenses	16
Rental and other deposits	16
	32
Net assets classified as held for sale	3,188

33 Capital management

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

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

The Group monitors its capital structure on the basis of gearing ratio, which is one of the most commonly adopted measurement standards for capital management by companies engaged in the businesses of property development and property investment. Gearing ratio is calculated based on the net debt (being the aggregate of the Group's bank and other borrowings and the amount due to a fellow subsidiary (collectively, the "Total debt") less cash and bank balances) and shareholders' funds of the Group at the end of the reporting period.

33 Capital management (continued)

During the year ended 31 December 2017, the Group's strategy, which was unchanged from that for the corresponding year ended 31 December 2016, was to secure long-term funding sources at attractive borrowing costs so as to finance the development of the Group's land bank in Hong Kong and mainland China in the coming years. The Group continued to maintain a low gearing ratio during the year, which has the effect of minimising any unfavourable impact on the Group arising from any unforeseeable adverse changes in the local and/or international financial markets, capital markets and economic conditions.

The Group's gearing ratios at 31 December 2017 and 2016 were as follows:

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

Except for a wholly-owned subsidiary of the Company which is engaged in the provision of finance and is governed by the requirements of the Banking Ordinance, neither the Company nor any of its other subsidiaries was subject to externally imposed capital requirements during the year and at 31 December 2017.

34 Transfers of subsidiaries

The Group transferred certain subsidiaries during the year ended 31 December 2017. The transfers which were completed during the year ended 31 December 2017 had the following effect on the Group's assets and liabilities:

	2017 HK$ million	2016 HK$ million
Investment properties and other property, plant and equipment (note 16(a))	**1,548**	2,376
Investment properties (included in asset of the disposal group classified as held for sale as at 31 December 2016)	**3,257**	–
Deposits for acquisition of properties	**3,316**	–
Inventories	**2,646**	851
Trade and other receivables	**546**	4
Cash and cash equivalents	**703**	154
Trade and other payables	**(383)**	(23)
Trade and other payables (included in liabilities associated with asset of the disposal group classified as held for sale as at 31 December 2016)	**(29)**	–
Tax payable	**(2)**	–
Deferred tax liabilities (note 11(c))	**–**	(30)
Net assets	**11,602**	3,332
Non-controlling interests	**(16)**	–
Initial recognition of interest in joint ventures	**–**	(463)
Release of exchange reserve (note 13(b))	**(238)**	(18)
Professional charges	**34**	66
Net gain on transfers (note 7)	**3,837**	1,959
Total consideration	**15,219**	4,876
Net cash inflow in respect of the transfers:		
Total consideration	**15,219**	4,876
Consideration received in advance in prior year	**(330)**	–
Consideration to be received	**(5,025)**	(421)
Cash and cash equivalents transferred	**(703)**	(154)
	9,161	4,301

35 Capital commitments

At 31 December 2017, the Group had capital commitments not provided for in these financial statements as follows:

		2017 HK$ million	2016 HK$ million
(a)	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**13,094**	6,806
	Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**14,454**	20,687
		27,548	27,493
(b)	**In relation to the capital commitments undertaken by joint ventures and certain associates attributable to the Group:**		
	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**1,825**	1,575
	Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**4,397**	547
		6,222	2,122

36 Significant leasing arrangements

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

(a) Lessor

The Group leases out a number of land/building facilities under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are re-negotiated. Further details of the carrying value of the properties are contained in note 16.

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

	2017 HK$ million	2016 HK$ million
Within 1 year	**4,972**	4,592
After 1 year but within 5 years	**5,553**	5,090
After 5 years	**214**	291
	10,739	9,973

36 Significant leasing arrangements (continued)

(b) Lessee

The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are re-negotiated.

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

	2017 HK$ million	2016 HK$ million
Within 1 year	**244**	168
After 1 year but within 5 years	**297**	61
	541	229

37 Contingent liabilities

At 31 December 2017, contingent liabilities of the Group were as follows:

(a) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and re-classification of the properties before or upon the Completion. At 31 December 2017, the Group had contingent liabilities in this connection of HK$11 million (2016: HK$13 million).

(b) At 31 December 2017, the Group had contingent liabilities in respect of performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects amounting to HK$1,237 million (2016: HK$40 million).

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

(d) At 31 December 2017, the Company had given an irrevocable, unconditional and several guarantee to the lending bank in relation to the repayment obligations by a joint venture, in which the Group has a 20% interest, which entered into a loan facility agreement with such lending bank on 2 May 2017. The Group's contingent liabilities in respect of the guarantee in relation to the drawdown amount of the loan facility, which is proportional to the Group's attributable interest in the joint venture, amounted to HK$30 million.

38 Material related party transactions

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

(a) Transactions with fellow subsidiaries

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

	2017 HK$ million	2016 HK$ million
Other interest expense (note (i))	**9#**	12#
Sales commission income (note (iii))	**8**	8
Administration fee income (note (ii))	**10**	9

(b) Transactions with associates and joint ventures

Details of material related party transactions during the year between the Group and its associates and joint ventures are as follows:

	2017 HK$ million	2016 HK$ million
Purchase of investment properties (note (iii))	**281**	–
Construction income (note (iii))	**194**	–
Rental income (note (iii))	**22**	24
Rental expenses (note (iii))	**150**	133
Venue-related expenses (note (iii))	**54**	49
Management fee income (note (iii))	**2**	4
Security guard service fee income (note (iii))	**25**	26
Other interest income (note (i))	**22**	4
Property management service fee income (note (iii))	**10**	8
Rental commission income (note (iii))	**6**	7
Sales commission income (note (iii))	**–**	3
Loan commitment fee income (note (iii))	**6**	7

38 Material related party transactions (continued)

(c) Transactions with related companies

Details of material related party transactions during the year between the Group and its related companies which are controlled by private family trusts of a director of the Company are as follows:

	2017 HK$ million	2016 HK$ million
Income from sale of construction materials (note (iii))	**4**	6
Rental income (note (iii))	**12**	19
Tax indemnity receipt	**1**	3

Notes:

(i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate, Hong Kong dollar prime rate or Renminbi benchmark loan rates announced by the People's Bank of China.

(ii) This transaction represents cost reimbursements or cost reimbursements plus certain percentage thereon as service fees.

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

(iv) The amount due to a fellow subsidiary at 31 December 2017 and 2016 is referred to in the Group's consolidated statement of financial position at 31 December 2017 and 2016, and the terms of which are set out in note 30. The amounts due from/to associates and joint ventures at 31 December 2017 and 2016 are set out in notes 18, 19, 24 and 27.

(d) Transactions with Sunlight REIT

Details of the material related party transactions during the year between the Group and Sunlight REIT (which is deemed as a connected person of the Company under the Listing Rules as from 30 April 2009) are as follows:

	2017 HK$ million	2016 HK$ million
Property and leasing management service fee income and other ancillary property service fee income	**53#**	49#
Asset management service fee income	**92#**	85#
Rental expenses	**11**	11
Security service fee income	**3#**	3#

The above transactions were conducted in accordance with the terms of the respective agreements/deeds entered into between the Group and Sunlight REIT. At 31 December 2017, the amount due from Sunlight REIT was HK$29 million (2016: HK$30 million) and is unsecured, interest-free and has no fixed terms of repayment. The amount is included in "Trade and other receivables" under current assets (note 24).

38 Material related party transactions (continued)

(e) Transactions with a director of the Company and a company owned by him

(i) On 20 March 2017, Dr Lee Ka Kit, a director of the Company, made an advance ("advance") of HK$91 million to Henderson (China) Investment Company Limited ("HCI"), an indirect wholly-owned subsidiary of the Group, for the purpose of funding HCI's business operation in mainland China. The advance is unsecured, interest-free and repayable on the first anniversary following the date on which HCI received the advance.

(ii) Dr Lee Ka Kit, through a company owned by him (the "entity"), has separate interest in an associate of the Group and through which the Group holds its interest in a development project in mainland China. The entity agreed to provide and had provided finance in the form of non interest-bearing advances to such associate in accordance with the percentage of its equity interest in such associate. At 31 December 2017, the advance by the entity to the abovementioned associate amounted to HK$80 million (2016: HK$80 million). Such amount is unsecured and has no fixed terms of repayment.

(f) Transactions with a director of the Company and a company owned by a close family member of a director of the Company

During the year ended 31 December 2017, the Group sold to Professor Ko Ping Keung, a director of the Company, and to a company owned by a close family member of Madam Fung Lee Woon King, a director of the Company, completed property units for considerations of HK$26 million and HK$57 million, respectively.

(g) Key management personnel

Remuneration for key management personnel are disclosed in note 9.

\# *These related party transactions also constitute connected transactions and/or continuing connected transactions under the Listing Rules, details of which are set out in the paragraph headed "Interests in transactions, arrangements or contracts and connected transactions/continuing connected transactions" in the Report of the directors set out in the Company's annual reports for the years ended 31 December 2017 and 2016.*

39 Statement of financial position and changes in equity of the Company

(a) Statement of financial position

	Note	At 31 December 2017 HK$ million	At 31 December 2016 HK$ million
Non-current assets			
Interest in subsidiaries	17	**165,749**	160,429
Interest in associates		**91**	94
Interest in joint ventures		**111**	135
		165,951	160,658
Current assets			
Trade and other receivables		**65**	65
Cash and bank balances		**2**	2
		67	67
Current liability			
Trade and other payables		**19**	18
		19	18
Net current assets		**48**	49
Total assets less current liability		**165,999**	160,707
Non-current liabilities			
Amounts due to subsidiaries		**35,110**	35,770
Amounts due to joint ventures		**100**	146
		35,210	35,916
NET ASSETS		**130,789**	124,791
CAPITAL AND RESERVE	39(b)		
Share capital	39(c)	**52,345**	52,345
Retained profits		**78,444**	72,446
TOTAL EQUITY		**130,789**	124,791

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

Lee Shau Kee
Lee Tat Man
Directors

39 Statement of financial position and changes in equity of the Company (continued)

(b) Movement in equity

	Note	Share capital HK$ million	Retained profits HK$ million	Total HK$ million
Balance at 1 January 2016		52,345	73,025	125,370
Changes in equity for 2016:				
Profit and total comprehensive income for the year		–	4,487	4,487
Bonus shares issued	39(c)	–	–	–
Dividend approved in respect of the previous financial year	12(b)	–	(3,538)	(3,538)
Dividend declared and paid in respect of the current year	12(a)	–	(1,528)	(1,528)
Balances at 31 December 2016 and 1 January 2017		**52,345**	**72,446**	**124,791**
Changes in equity for 2017:				
Profit and total comprehensive income for the year		**–**	**12,029**	**12,029**
Bonus shares issued	39(c)	**–**	**–**	**–**
Dividend approved in respect of the previous financial year	12(b)	**–**	**(4,110)**	**(4,110)**
Dividend declared and paid in respect of the current year	12(a)	**–**	**(1,921)**	**(1,921)**
Balance at 31 December 2017		**52,345**	**78,444**	**130,789**

39 Statement of financial position and changes in equity of the Company (continued)

(c) Share capital

	The Group and the Company			
	Number of shares		Amount	
	2017 million	2016 million	**2017 HK$ million**	2016 HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**3,637**	3,306	**52,345**	52,345
Issue of bonus shares (note (i))	**364**	331	**–**	–
At 31 December	**4,001**	3,637	**52,345**	52,345

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the shares of the Company do not have a par value.

(i) *Issue of bonus shares*

On 21 June 2017, an aggregate of 363,740,571 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 13 June 2017.

On 23 June 2016, an aggregate of 330,673,246 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 13 June 2016.

There is no change to the Company's share capital as the Company's shares no longer have a par or nominal value in accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622).

(d) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622), was HK$78,444 million (2016: HK$72,446 million). As stated in note 12(a), after the end of the reporting period, the directors proposed a final dividend of HK$1.23 (2016: HK$1.13) per ordinary share, amounting to HK$4,921 million (2016: HK$4,110 million). This dividend has not been recognised as a liability at the end of the reporting period.

40 Non-adjusting events after the reporting period

(a) After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 12.

(b) The Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of, and the shareholder's loan to, Fortune Choice Development Limited (a wholly-owned subsidiary) which owns a project under development at Kwun Chui Road, Area 56, Tuen Mun Town Land Lot No. 500, the New Territories, Hong Kong, for a cash consideration of HK$6,600 million (subject to adjustment). The transaction was completed on 5 January 2018 and proceeds of HK$6,611 million representing the full sale consideration (as adjusted) were received by the Group.

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

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

41 Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.

42 Immediate parent and ultimate controlling party

At 31 December 2017, the directors consider that the immediate parent and ultimate controlling party of the Group to be Henderson Development Limited, which is incorporated in Hong Kong. Henderson Development Limited does not produce financial statements available for public use.