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# Hysan Development Company Limited

## 希慎興業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code : 00014)

### PRELIMINARY ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

- Turnover increased by 0.4%; against a slight decline in Recurring Underlying Profit of 0.8%
- Reported Profit increase reflecting changes in fair value of investment properties
- Retail portfolio occupancy at 97%; Office portfolio occupancy at 96%
- Completion of Lee Garden Three further building our commitment to lifestyle and community

## RESULTS

	Notes	Year ended 31 December		Change
		2017	2016	
		HK\$ million	HK\$ million	
Turnover	1	3,548	3,535	+0.4%
Recurring Underlying Profit	2	2,349	2,369	-0.8%
Underlying Profit	3	2,491	2,369	+5.1%
Reported Profit	4	3,636	1,218	n/m
		HK cents	HK cents	
Earnings per share, based on:				
Recurring Underlying Profit	2	224.68	226.29	-0.7%
Underlying Profit	3	238.26	226.29	+5.3%
Reported Profit	4	347.78	116.35	n/m
Full-year dividends per share		137.00	135.00	+1.5%
		At 31 December		
		2017	2016	
		HK\$ million	HK\$ million	
Shareholders' Funds	5	69,953	67,490	+3.6%
		HK\$	HK\$	
Net Asset Value per Share	6	66.89	64.56	+3.6%

n/m: not meaningful

**Notes:**

1. **Turnover** comprises rental income and management fee income derived from the Group's investment property portfolio in Hong Kong.
2. **Recurring Underlying Profit** is a performance indicator of the Group's core property investment business and is arrived at by excluding from Underlying Profit items that are non-recurring in nature.
3. **Underlying Profit** is arrived at by excluding from Reported Profit unrealised fair value changes on investment properties. As a property investor, the Group's results are principally derived from the rental revenues on its investment properties. The inclusion of the unrealised fair value changes on investment properties in the consolidated statement of profit or loss causes an increase in fluctuation in earnings and poses limitations on the use of the unadjusted earning figures, financial ratios, trends and comparison against prior period(s). Accordingly, unrealised fair value changes on investment properties are excluded in arriving at the Underlying Profit.
4. **Reported Profit** is the profit attributable to owners of the Company. It is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance.
5. **Shareholders' Funds** is the equity attributable to owners of the Company.
6. **Net Asset Value per Share** represents Shareholders' Funds divided by the number of issued shares at year-end.

**CHAIRMAN'S STATEMENT**

The global economy experienced reasonable growth in 2017, due to a combination of monetary policy accommodation, fiscal policy stimulation and an overall improvement in trade.

The Hong Kong economy also shrugged off the gloom of 2016. Good labour market conditions, strong asset prices and stock market all helped to create a wealth effect which drove an improvement in domestic spending. In addition, the statistics for visitor arrivals were also encouraging, including an increase of 3.9% in inbound Mainland Chinese tourists in 2017, as compared to 2016.

As a result of positive macro conditions, Hong Kong's retail sales saw a slight uptick in growth after several years of decline. Jewellery and watches were the strongest performers, and almost all mid-priced to affordable item categories registered healthy growth.

Although the economic recovery appears fairly robust, structural changes cannot be ignored. In this report, we provide updates on the challenges we are facing. More importantly, we highlight the actions we took in 2017 to address these issues, as well as our plans to respond to these changes in the near to medium term.

**Retail**

Among the most significant retail structural changes is the "generational shift". The Millennials and Generation Z'ers have different needs to the older generations, and these needs are driving changes in the where, what, how and when products and services are delivered. There is also a clear "demographic change" in Hong Kong whereby Mainland Chinese tourists, as well as "New Hong Kong" residents are revealing themselves as mature and sophisticated spenders who demand quality products and services. We need to cater simultaneously to the needs of tourists, newer residents who came to settle in Hong Kong over the past 10 to 20 years, and the "old" Hong Kong.

Technological advancements clearly represent another facet of structural change within the retail industry. The relentless growth of e-commerce, the ever-increasing dominance of mobile technology, the prevalence of social media in our everyday lives: these factors place serious demands on retailers to make swift and drastic changes. As the landlord and venue provider for a wide range of retailers, we have to constantly enhance our retail environment to cater to these changes. Our tenant collaboration programmes, as noted in the section on Hysan's progress in 2017, highlight the importance we place on our partnerships with tenants.

Generational and demographic changes, as well as the extensive use of technology are causing many shoppers to look further into what they really want when they shop. Brands and retailers, as well as online operators, are making their moves to address these issues. Hysan, as a landlord mall operator, needs to re-invent and re-imagine both strategically and operationally. Giving shoppers special attention is now just as important as providing for the straightforward sale of goods. To provide that “extra special” touch, retailers and mall operators now try to make the shopping experience socially pleasant and interesting by offering personalised and unique services to delight and surprise, while making use of technology to enhance these special offerings. All shopping malls in Hong Kong are now seeking to entice shoppers with this experiential approach. Hysan has started the journey into new retail and we will continuously adapt our offerings.

The luxury sector has been challenging. Despite the fact that consumer sentiment for purchasing certain luxury goods, such as jewellery and watches, has rebounded to a level close to that seen earlier in the decade, consumer behaviour and taste for the high-end subsectors have changed in the past few years. The definition of luxury stretches beyond buying exclusive or expensive goods. It now encompasses health and well-being as well as children-centric offerings, all within a highly demanding enhanced environment.

### **Office**

Office leasing faces its own set of significant challenges, much of which is related, again, to generational change. The younger and incoming members of the workforce now subscribe to a more fluid and mobile work style, instead of being tied down to a desk, or even an office. They prefer to work in a social setting, not just with colleagues, but in an environment where they can exchange ideas and contacts with people from other fields and disciplines.

Co-working space is a major disruptor and is a growing trend. Several internationally-renowned co-working brands have obtained footholds in Hong Kong, while other more regional and local names are making an impact by adopting unique ways to attract short or longer-term office space users. Hysan has embraced the collaborative work model with an increase of our office portfolio’s exposure to over 5%.

Looking at office leasing through a more traditional lens, Hong Kong’s Central district is still the favourite destination of Mainland Chinese financial institutions, with a number of professional firms servicing these clients also taking up Central spaces with record or near-record high rents. Non-Central core areas are generally still supported by the spill-over effect, with some multinational companies opting to relocate to these popular districts, such as Causeway Bay, that are just two or three MTR stops away from Central. Outside Central, we note that while the value for money differential between Causeway Bay and other office areas on the Island and on Kowloon side still exists, the competition from these areas remains strong.

### **Hysan’s Progress in 2017**

Hysan continued to launch new initiatives to address challenges in our retail and office portfolios.

A new addition to our already well-balanced Causeway Bay commercial portfolio is Lee Garden Three. The building is positioned as our area’s lifestyle extension. The commercial building received its first new office tenant in December 2017. A number of other multinational enterprises, from a diverse business background, are putting the final touches to their interior works and will soon be operating in the office portion of the building. Spaces, a well-known community-based co-working brand, has chosen Lee Gardens as its flagship base in Hong Kong. It highlights our commitment to participate in the future growth of the co-working sector. In addition, the retail podium will see the launch of a range of exciting food and beverage outlets, as well as lifestyle shops complementing existing ones in the Lee Gardens area.

For our retail portfolio in general, while retaining top name tenants, we have also enhanced the trade mix by introducing a significant number of popular lifestyle brands. These complement our more established food and beverage venues.

We have focused our marketing efforts in new tenant collaboration programmes. Some examples include a partnership with the revamped Louis Vuitton shop, a much-talked-about eslite summer programme, and a colourful I.T. showcase. All of these have attracted considerable media attention, extensive footfall and healthy spending. Our popular sales incentive programmes have also achieved good sales figures. Our loyalty clubs, including both the VIP Club Avenue and the general shoppers' Lee Gardens Plus, recorded significant percentage growth of year-on-year membership numbers, and importantly, also achieved healthy sales growth.

As for our office portfolio, we continued to provide tenancy for office users from different business sectors and different types of users. We are creating an inclusive office community that fits the needs and demands of modern-day users. We have a diverse portfolio of office tenants which includes sales, banking, finance, insurance, technology, health and wellness, as well as high-end brands.

Further, we have offered offices at Leighton Centre to three up-and-coming NGOs from different backgrounds: design and elderly services, performing arts and technological development. The initiative represents Hysan's continuing commitment to foster innovation and serve our community.

### **Looking Ahead**

Lee Gardens' retail portfolio has long been associated with brands that sell the finer things in life. While we will continue to support brands that offer classic luxury, our commitment to promote lifestyle through food and beverage, as well as health and wellness in an environment with a strong sense of community, will define the new retail where emerging consumers demand quality expressed through sustainability, honesty and individuality.

We expect our office portfolio to be relatively stable. We will maintain our focus on growing a sustainable, community-based working environment, where a balanced lifestyle for tenants' workers is valued. We will also provide a more technology-friendly environment, with more opportunities for collaboration and experience sharing. Looking ahead, we will explore more aspects of the sharing economy, including an enhanced co-working community, as well as co-living arrangements.

For our two main business sectors, we need to bring new initiatives to the market with speed. We are keen to foster innovation within the commercial real estate sector and to implement disruptive technology while still leveraging our prime strengths to drive long-term growth. Going forward, we will be more digitalised and more data driven, but we will also ensure that technology is adopted at the consumer level to help customers interact with the brand.

Finally, as we illustrated in our last annual report, Hysan always strives to innovate and curate relevant content for the Lee Gardens community. Throughout 2017, we have continued to introduce small-scale but significant improvements, such as supporting Lee Gardens Association's Egglette and Ice-Cream festivals, as well as providing the setting for Cathay Pacific/HSBC's Rugby Sevens Fan Walk. The year-end recreation of Lee Gardens Hotel's Yum Sing Bar also proved to be a nostalgia-filled success. We will continue to explore short and longer-term ways to enhance the Lee Gardens area in which a broad leafy avenue, quirky side streets, state-of-the-art high-rise buildings, heritage low-rise, eclectic businesses, as well as workers and visitors fuse together to form a unique community.

## **Business Performance**

The Group saw a slight turnover increase of 0.4% to HK\$3,548 million, from HK\$3,535 million in 2016. At year-end 2017, our retail portfolio occupancy was 97%. Occupancy of our office portfolio was 96%, and the residential portfolio was 75%. The retail and office occupancy percentages did not include Lee Garden Three which was completed in Mid-December 2017.

Recurring Underlying Profit, our key core leasing business performance indicator, experienced a slight decline of 0.8% to HK\$2,349 million (2016: HK\$2,369 million). This reflected the small growth in turnover in light of the market conditions, as well as the increase in expenses for Lee Garden Three after its completion. Basic earnings per share based on Recurring Underlying Profit were HK224.68 cents (2016: HK226.29 cents), down 0.7%.

Underlying Profit, which excludes unrealised changes in fair value of investment properties, was HK\$2,491 million, increased by 5.1% from HK\$2,369 million in 2016. This principally reflected a one-off compensation of HK\$142 million (2016: nil) (net of taxation and non-controlling interests' shares) from a retail tenant during the year. Basic earnings per share based on Underlying Profit correspondingly rose to HK238.26 cents (2016: HK226.29 cents), up 5.3%.

The Group's Reported Profit for 2017 was HK\$3,636 million (2016: HK\$1,218 million). This reflected a fair value gain of HK\$853 million (2016: fair value loss of HK\$1,187 million) on the Group's investment properties' valuation. As at year-end 2017, the external valuation of the Group's investment property portfolio increased by 4.1% to HK\$72,470 million (2016: HK\$69,633 million). This reflected a combination of factors: a generally positive office rental outlook; a number of asset enhancement works completed, as well as a higher valuation for the completed Lee Garden Three and an improving retail outlook. The capitalization rates used in valuing each portfolio remained unchanged from those used as at 31 December 2016.

Shareholders' Funds increased by 3.6% to HK\$69,953 million (2016: HK\$67,490 million), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 17.1 times (2016: 20.5 times) and net debt to equity ratio of 5.0% (2016: 5.4%).

## **Capital Management**

The Board of Directors (the "Board") is pleased to declare a second interim dividend of HK111 cents per share (2016: HK109 cents). Together with the first interim dividend of HK26 cents per share (2016: HK26 cents), the total distribution is HK137 cents per share (2016: HK135 cents), representing a year-on-year increase of 1.5%. The dividend will be payable in cash.

## **Appreciation and Outlook**

Although 2017 saw Hong Kong's economy emerging from a difficult period, Hysan still had to navigate through significant changes within our fields of operation. Our management team and colleagues deserve full credit for developing and delivering many successful projects. I would like to take this opportunity to thank them for their hard work, and I would also like to thank our directors for their support and guidance.

The trend of global economic expansion is likely to continue in 2018, despite some geopolitical uncertainties, a potential further U.S. rate hikes, and the possibility of a slowdown in the Chinese economy. Hong Kong's economy is expected to continue to be buoyed by growth in consumer spending.

Hysan has implemented a range of measures to tackle the retail and office structural changes head on. Lee Garden Three's completion is adding greater impetus to the changes in both sectors of our commercial portfolio. We also have a comprehensive plan to further curate the Lee Gardens community with the support of our neighbourhood stakeholders. We look forward to another fruitful year ahead.

**Lee Irene Yun-Lien**

*Chairman*

Hong Kong, 28 February 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Hysan's portfolio of retail, office and residential investment properties has a total gross floor area of approximately 4.1 million square feet. This does not include the newly completed Lee Garden Three mixed-use commercial building, which has a gross floor area of around 467,000 square feet.

**Strategy**

The Group is committed to seeking a steady growth of return for our shareholders. The vast majority of our properties are located in Hong Kong's Causeway Bay, and the area will remain our home base and the core of our focus. The Group also seeks investment opportunities beyond our core. One recent project is a joint-venture residential project in Hong Kong's Tai Po.

We enhance the value of our properties through refurbishing, repositioning, redevelopment and other means of portfolio management. We actively seek new investment opportunities with an aim to enhance long-term value for shareholders. We also strive to curate a unique community in the Lee Gardens area of Causeway Bay for our tenants and other stakeholders. With sound financial management underpinning everything we do, we execute our work through a dedicated team of professionals well versed in different aspects of the real estate industry.

**Review of Results**

The Group saw a slight turnover increase of 0.4% to HK\$3,548 million, from HK\$3,535 million in 2016.

The turnover of each sector is shown as below:

	<b>2017</b>	2016	Change
	<b>HK\$ million</b>	HK\$ million	%
Retail sector	<b>1,925</b>	1,969	-2.2
Office sector	<b>1,359</b>	1,292	+5.2
Residential sector	<b>264</b>	274	-3.6
	<b>3,548</b>	3,535	+0.4

Recurring Underlying Profit, our key core leasing business performance indicator, experienced a slight decline of 0.8% to HK\$2,349 million (2016: HK\$2,369 million). This reflected the small growth in turnover as a result of the market conditions, as well as the increase in expenses for Lee Garden Three after its completion. Basic earnings per share based on Recurring Underlying Profit were HK224.68 cents (2016: HK226.29 cents), down 0.7%.

Underlying Profit, which excludes unrealised changes in fair value of investment properties, was HK\$2,491 million, increased by 5.1% from HK\$2,369 million in 2016. This principally reflected a one-off compensation of HK\$142 million (2016: nil) (net of taxation and non-controlling interests' shares) from a retail tenant during the year. Basic earnings per share based on Underlying Profit correspondingly rose to HK238.26 cents (2016: HK226.29 cents), up 5.3%.

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	2017 HK\$ million	2016 HK\$ million	Change %
<b>Recurring Underlying Profit</b>	<b>2,349</b>	2,369	-0.8
One-off early surrender compensation income (net of effect of taxation and non-controlling interests' shares)	<b>142</b>	-	n/m
<b>Underlying Profit</b>	<b>2,491</b>	2,369	+5.1
Fair value gain (loss) on investment properties located in			
- Hong Kong (net of effect of non-controlling interests' shares)	<b>1,106</b>	(1,157)	n/m
- Shanghai*	<b>11</b>	6	+83.3
Imputed interest income on interest-free loan to a joint venture	<b>28</b>	-	n/m
<b>Reported Profit</b>	<b>3,636</b>	1,218	n/m

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

n/m: not meaningful

### Review of Operations

As at 31 December 2017, excluding the new Lee Garden Three, about 83% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay. The remaining 17% was represented by residential properties in the Mid-Levels.

In terms of turnover contributions by the different business portfolios, about 54% was attributable to retail, 38% to office and 8% to residential properties.

### Key Performance Indicators

The Group's turnover growth and occupancy rate are the key measurements used for assessment of our core leasing business performance. Cost effectiveness is assessed by the Group's management using the property expenses ratio (as a percentage of turnover).

Key Performance Indicators	Definition	Business Performance
Turnover Growth	Rental revenue in 2017 vs that in 2016	Retail: -2.2% (2016 vs 2015: +3.5%) Office: +5.2% (2016 vs 2015: +3.9%) Residential: -3.6% (2016 vs 2015: -3.9%)
Occupancy Rate**	Percentage of total area leased*/ total lettable area* of each portfolio at year end	Retail: 97% (2016: 99%) Office: 96% (2016: 96%) Residential: 75% (2016: 82%)
Property Expenses Ratio	Property expenses divided by turnover	12.7% (2016: 12.1%)

*\*Source of underlying data: Internal company data*

*\*\*The retail and office occupancy percentages did not include Lee Garden Three which was completed in Mid-December 2017. This definition is applied to the whole "management discussion and analysis" section.*

*Note: No changes have been made to the source of data or calculation methods used compared to 2016.*

### **Retail Portfolio**

The Group's retail portfolio turnover saw a decline of 2.2% to HK\$1,925 million (2016: HK\$1,969 million), which included turnover rent of HK\$48 million (2016: HK\$46 million). With an ongoing tenant mix adjustment, some shop spaces experienced positive rental reversion while others saw negative reversion in rental renewals, reviews and new lettings.

The portfolio's occupancy was 97% as at 31 December 2017 (31 December 2016: 99%).

Foot traffic for Hysan's retail portfolio decreased by around 5% in 2017, as compared to 2016. This was due mainly to major renovation and fit out works for a number of new tenants. Some improvement in footfall was seen towards the end of the year.

The estimated overall tenant sales within the portfolio experienced a single-digit percentage increase, as compared to 2016. This compared well to Hong Kong's overall retail sales in 2017.

Newly joined tenants in 2017 included Brunello Cucinelli, Zeiss Vision Center by Puyi Optical, Cha Ling and i.t. blue block. The latter in particular reinforced Hysan Place's position as Hong Kong's top fashionable shopping venue. Our portfolio also welcomed a number of new food and beverage establishments to further add to our reputation as a foodie destination. BRICK LANE, The PHO, and IPPUDO were among the eateries that joined, as well as FLIPPER'S, the popular pancake restaurant operating out of i.t. blue block. In early 2018, we welcomed 10 Shanghai and Sushi Ta-ke.

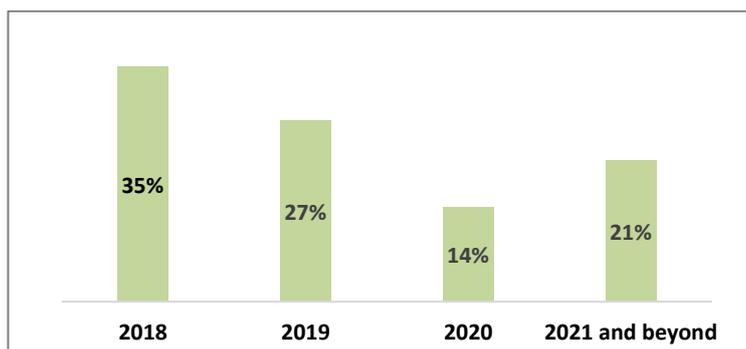
2017 saw a number of show-stopping events taking place at Hysan's portfolio. The Cathay Pacific/HSBC Rugby Sevens Fan Walk in April attracted much attention both from the sport's hardcore fans who travelled to Hong Kong from different parts of the world, as well as from casual local visitors who previously may have had less exposure to this international sporting event. The dining and shopping promotions that complemented the weekend event brought customers and sales to the restaurants and shops within the Hysan portfolio. The weekend's street carnival on Hysan Avenue and Yun Ping Road established Lee Gardens as a true destination in the hearts and minds of thousands of international visitors.

The summer's programme in cooperation with eslite was another highlight attracting considerable attention. The lifestyle theme permeated the month-long event with books, a selection of coffees and even cassette tapes playing major roles. The winter holiday period saw Christmas markets in the Lee Gardens area, with a number of stalls hosted by renowned celebrities. Giant baubles, adopted by charity donors, adorned the malls. Both these events successfully reflected our commitment to providing interesting content and entertainment for all those who come and shop in our spaces.

We made substantial use of social media to help promote our events and activities, as well as our range of special offers provided throughout the year. On the topic of promotions, we strengthened our cooperation with a number of Mainland Chinese social media organisations to push our messages into the Mainland market. We also worked closely on promotional projects with banks and credit card operators that are popular with Mainland visitors.

2017 was a successful year for our two loyalty programmes: the VIP Club Avenue, and the general shoppers' Lee Gardens Plus. For Club Avenue, the number of members saw a low double-digit percentage growth, as compared to 2016, while sales also experienced a similar level of percentage growth. Tenant referral and collaboration were key to our success. For Lee Gardens Plus, the number of members grew in multiples. More attractive promotional offers and a simplified registration process helped to ensure significant membership growth.

#### **Retail Lease Expiry Profile by Area Occupied (As at 31 December 2017)**



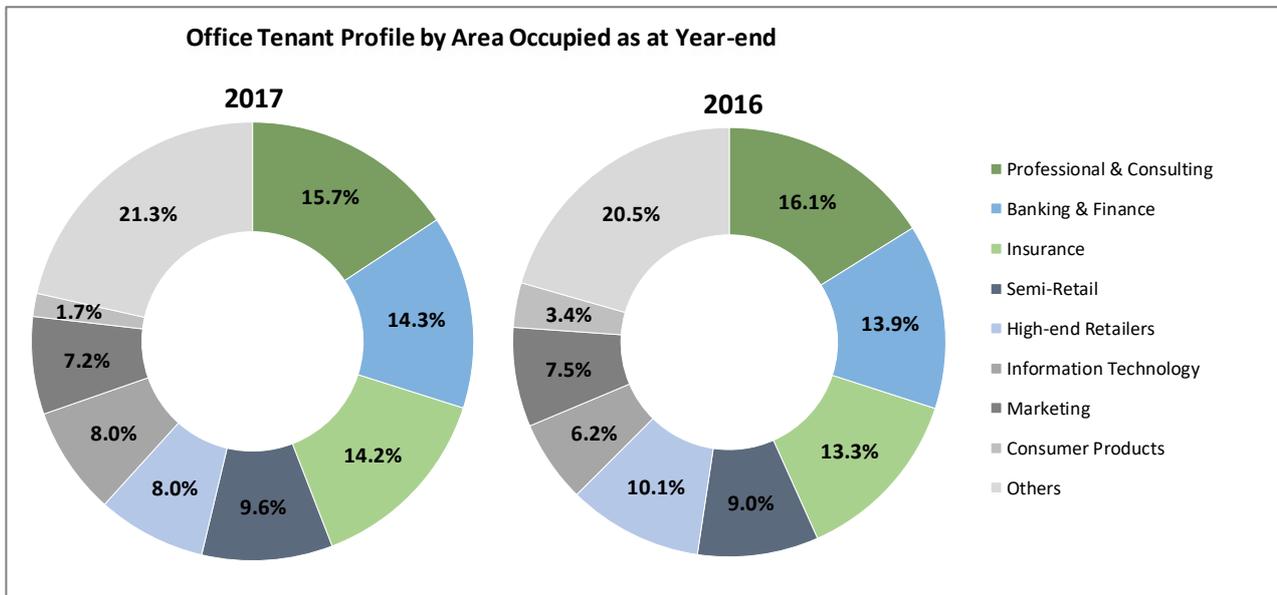
#### **Office Portfolio**

The Group's office portfolio turnover increased by 5.2% to HK\$1,359 million (2016: HK\$1,292 million). The results reflected overall positive rental reversion on renewals, reviews and new lettings.

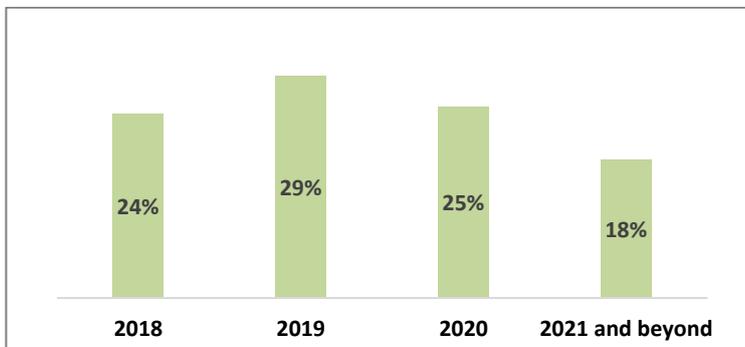
The office portfolio occupancy was 96% as at 31 December 2017 (31 December 2016: 96%).

Causeway Bay remained one of the most sought after areas for multinational and local corporations seeking prestige, convenience and good value for money. Lee Garden Three's pre-leasing activities slowed down somewhat in the second half of 2017, but close to 55% of its office space was committed for rental. Kim Eng Securities (HK) Ltd, a subsidiary of Maybank Group was the building's first moved-in tenant, while Spaces, a renowned full service co-working environment provider, was among the incoming tenants. Both workers and visitors to the building would find it easy to park, since more than 200 spaces were added upon the completion of the building.

Professional and Consulting remained the sector taking up the most space in Hysan's office portfolio. Banking and Finance, Insurance and Semi-Retail took up the second, third and fourth spots. These four sectors combined to occupy around 50% of our lettable floor area. Reflecting a diverse tenant mix, no category took up more than 20% of the total lettable area.



**Office Lease Expiry Profile by Area Occupied (As at 31 December 2017)**



**Residential Portfolio**

Hysan’s residential portfolio, comprising mainly the units in Kennedy Road’s Bamboo Grove, experienced a 3.6% turnover decrease to HK\$264 million (2016: HK\$274 million). The sector’s occupancy was 75% as at 31 December 2017 (31 December 2016: 82%). The decline in occupancy was due to more units being renovated, as well as changes in demand by expatriates.

The rental reversion was overall positive on renewals, reviews and new lettings.

**Lee Garden Three Project**

The construction project was completed in December 2017, upon the issuance of the Occupation Permit. Lee Garden Three is a commercial building that promotes environmental friendliness and work-life balance with a retail podium, a Roof Top Garden, a Sky Garden with a 100 metre long running track, as well as a range of dining hotspots, all complementing the lifestyle elements in the Lee Gardens portfolio. The first office tenants have already moved in, and three levels of parking spaces are already open for use by tenants and the visiting public.

**Tai Po Lo Fai Road Project**

Design development of our low density residential development project at Tai Po is making good progress. Various statutory submissions are ongoing. Site formation and foundation works will commence in Q2 2018.

## **Financial Review**

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

### ***Operating Costs***

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

Property expenses increased by 4.9% to HK\$449 million (2016: HK\$428 million), mainly due to higher marketing expenses to enhance shopping attractions; increased life-cycle repairs and maintenance costs; agency fees to external leasing agents for Lee Garden Three; and offsetting lower utility costs as a result of tariff reduction. As the increase in property expenses is more than the relevant increase in turnover, property expenses to turnover ratio thus increased slightly from 12.1% to 12.7% as compared to 2016.

Administrative expenses increased by 12.8% to HK\$247 million (2016: HK\$219 million). This reflected human resources upskilling and the filling of previously vacant positions.

### ***Finance Costs***

Finance costs, after capitalisation of HK\$51 million (2016: HK\$14 million) interest expenses and related borrowing costs referable to the construction costs of Lee Garden Three, recorded a decrease of 11.2% to HK\$158 million (2016: HK\$178 million). If the capitalised interest expenses and related borrowing costs were included, the Group's finance costs in 2017 would have been HK\$209 million, an increase of 8.9% from HK\$192 million in 2016. The increase was attributable to the higher average debt level in 2017 as compared to 2016 after debt repayments in both years. The Group's average cost of finance in 2017 was 3.4%, lower than the 3.8% reported for 2016 due to the increase in interest expenses, which were relatively lower than the percentage increase in average debt level during 2017.

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

### ***Revaluation of Investment Properties***

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$853 million (2016: fair value loss of HK\$1,187 million) was recognised in the Group's consolidated statement of profit or loss for the year. This figure reflected a combination of factors: a generally positive office rental outlook; a number of asset enhancement works completed; as well as a higher valuation for the completed Lee Garden Three and an improving retail outlook.

As at 31 December 2017, the Group's investment property portfolio (including property under redevelopment) was HK\$72,470 million, an increase of 4.1% from HK\$69,633 million as at 31 December 2016. This valuation was carried out by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2016.

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

	2017 HK\$ million	2016 HK\$ million	Change %
Retail	33,188	33,082	+0.3
Office	31,325	23,832	+31.4
Residential	7,957	7,859	+1.2
Lee Garden Three*	-	4,860	n/m
	<b>72,470</b>	<b>69,633</b>	<b>+4.1</b>

\*Lee Garden Three's construction works were completed during the year ended 31 December 2017.

### **Investment in an Associate**

The Group's share of results of an associate decreased to HK\$220 million (2016: HK\$237 million). This decline mainly reflected the impact from renovation of the Shanghai Grand Gateway project, of which the Group owns 24.7%. As at 31 December 2017, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, amounted to HK\$11 million (2016: HK\$6 million).

### **Other Investments**

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

Excluding recognition of imputed interest income on the non-current interest-free loan to a joint venture company for residential sites' development in Tai Po of HK\$28 million (2016: nil), like-for-like interest income decreased by 18.0% to HK\$41 million (2016: HK\$50 million). This figure mainly reflected a lower average investment amount after the payment of the construction costs of Lee Garden Three.

### **Cash Flow**

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

	2017 HK\$ million	2016 HK\$ million	Change %
Operating cash inflow	2,900	3,326	-12.8
Investments	1,020	1,331	-23.4
Net repayment from (advance to) a joint venture company	935	(2,036)	n/m
Financing	(151)	1,427	n/m
Interest and taxation	(566)	(523)	+8.2
Dividends paid and proceeds on exercise of options	(1,524)	(1,500)	+1.6
Capital expenditure	(1,947)	(847)	n/m
Consideration for shares repurchased	-	(395)	n/m
<b>Net cash inflow</b>	<b>667</b>	<b>783</b>	<b>-14.8</b>

n/m: not meaningful

The Group's net operating cash inflow was HK\$2,900 million (2016: HK\$3,326 million), HK\$426 million lower than in 2016, reflecting a one-off compensation received from a tenant during 2016.

Net cash from investments was HK\$1,020 million (2016: HK\$1,331 million), mainly attributable to reduction in investments in time deposits with longer tenors.

Net repayment from a joint venture company was HK\$935 million after completion of project financing on land acquisition costs during the year. In 2016, cash in advance to a joint venture company was HK\$2,036 million for the payment of land acquisition costs.

Net cash used in financing was HK\$151 million after net repayment during the year. In 2016, net cash from financing was HK\$1,427 million. This principally reflected new bank loans of HK\$1,680 million for the payment of land acquisition costs, which offset the repayment of a HK\$250 million bank loan during 2016.

The Group paid dividends of HK\$1,411 million (2016: HK\$1,394 million), being the 2016 second interim dividend of HK109 cents per share (2015: HK107 cents) and the 2017 first interim dividend of HK26 cents (2016: HK26 cents) per share.

The Group repurchased 12.59 million of its own shares in 2016, at an aggregate consideration of HK\$395 million. The average purchase price per share was HK\$31.24.

### ***Capital Expenditure and Management***

The Group is committed to enhancing the asset value of our investment property portfolio through selective asset enhancement and redevelopment. The Group has also established a portfolio-wide whole-life cycle maintenance programme as part of our ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK\$1,947 million (2016: HK\$847 million), including the payment of the construction costs of Lee Garden Three.

### **Treasury Policy**

#### ***Market Highlights***

2017 was a year of global growth recovery, driven by synchronised global expansion. On the back of the falling U.S. unemployment rate, improving GDP growth and low inflation, the Federal Reserve raised the federal funds rate by 25 basis points on three occasions in 2017. The Federal Reserve has further stated that it will continue to withdraw liquidity by gradually increasing the federal funds rate and tapering its balance sheet in the coming period. Under the currency board system, Hong Kong interest rates rise in line with the Federal Reserve's progressive normalisation of monetary policy. HKD Hibor rates rose during the last quarter of 2017 but the differential with the U.S. Libor rates has remained wide as a result of rising U.S. interest rates and ample liquidity in Hong Kong. Asia also performed well in 2017 owing to benign U.S. inflation and the strength of commodity prices. China also witnessed robust growth in 2017. However, the rate of growth has slowed due to the tightening of financial and environmental regulations.

Although global economic growth continues, concerns remain for the year ahead. Geopolitical events such as those related to North Korea could impact sentiment and destabilise the market. A more marked slowdown in the growth of China's economy may also impact the rest of the world. It is therefore important for the Group to continue our policy of prudent financial management.

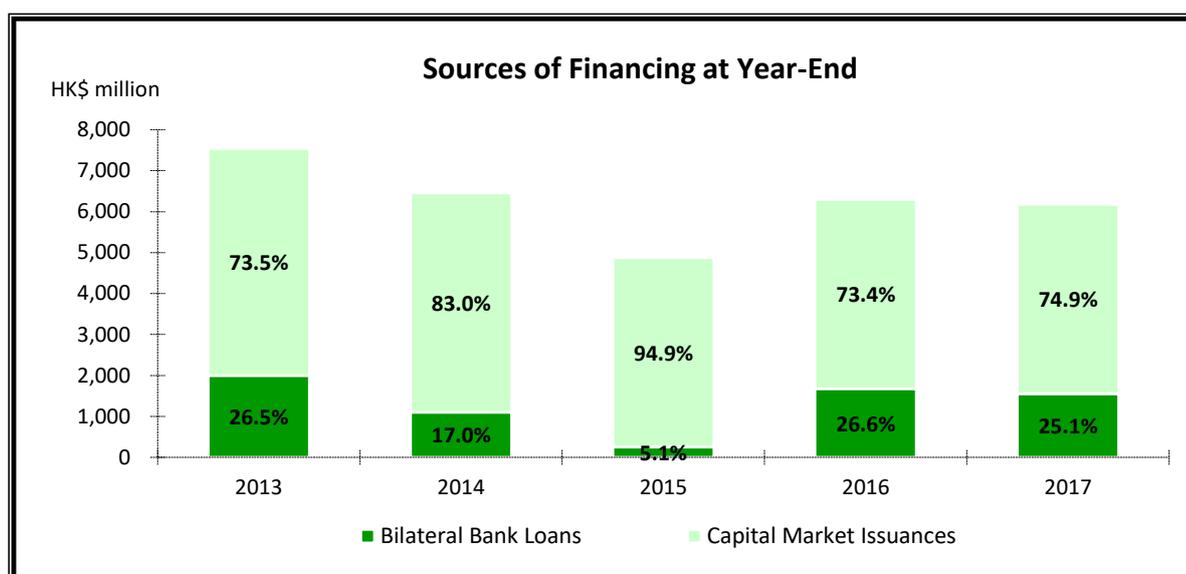
### Capital Structure Management

Despite the interest rate tightening in the U.S., there was ample liquidity in the banking system of Hong Kong in 2017. The credit margin of bank loans for companies with investment grade credit ratings saw a modest decline. The 3-month HKD Hibor increased from around 1% at the end of 2016 to around 1.3% at the end of 2017.

During 2017, the Group arranged HK\$1,500 million five-year bank facilities on competitive terms. The outstanding gross debt<sup>1</sup> of the Group was HK\$6,176 million (2016: HK\$6,305 million) at year-end 2017, a decrease of HK\$129 million compared with 2016. All the outstanding borrowings are on an unsecured basis.

The Group always strives to lower the borrowing margin, to diversify funding sources and to maintain a suitable maturity profile relative to the overall use of funds. Because of the repayment of bank loans in 2017, debts sourced from the capital market increased to 74.9% (2016: 73.4%) at year-end. The Group continued to maintain long-term relationships with a number of local and overseas banks in order to diversify funding sources. At year-end 2017, seven local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

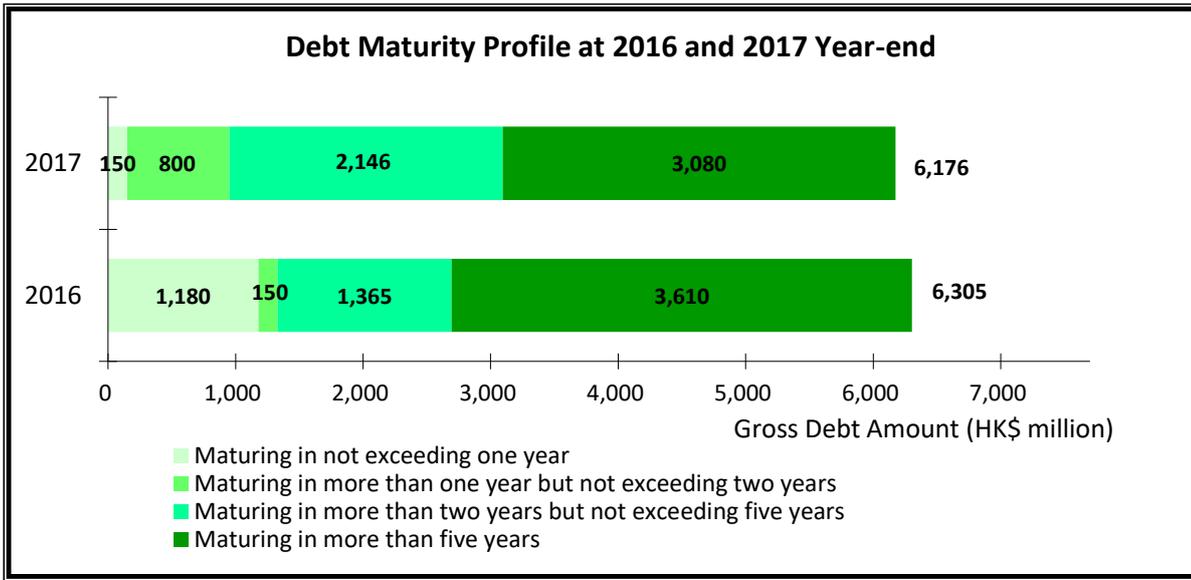
The following graph shows the percentages of total outstanding gross debts sourced from banks and the debt capital markets in the past five years.



The Group also strives to maintain an appropriate debt maturity profile. As at 31 December 2017, the average maturity of the debt portfolio was about 4.3 years (2016: 4.3 years), of which about HK\$150 million or 2.4% of the outstanding gross debt will be due in less than one year. Given that the Group had cash and bank deposits of HK\$2,662 million, the Group is able to meet the debt repayment in 2018 without much refinancing pressure.

<sup>1</sup> The gross debt represents the contractual principal payment obligations at 31 December 2017. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2017, the book value of the outstanding debt of the Group was HK\$6,185 million (31 December 2016: HK\$6,293 million).

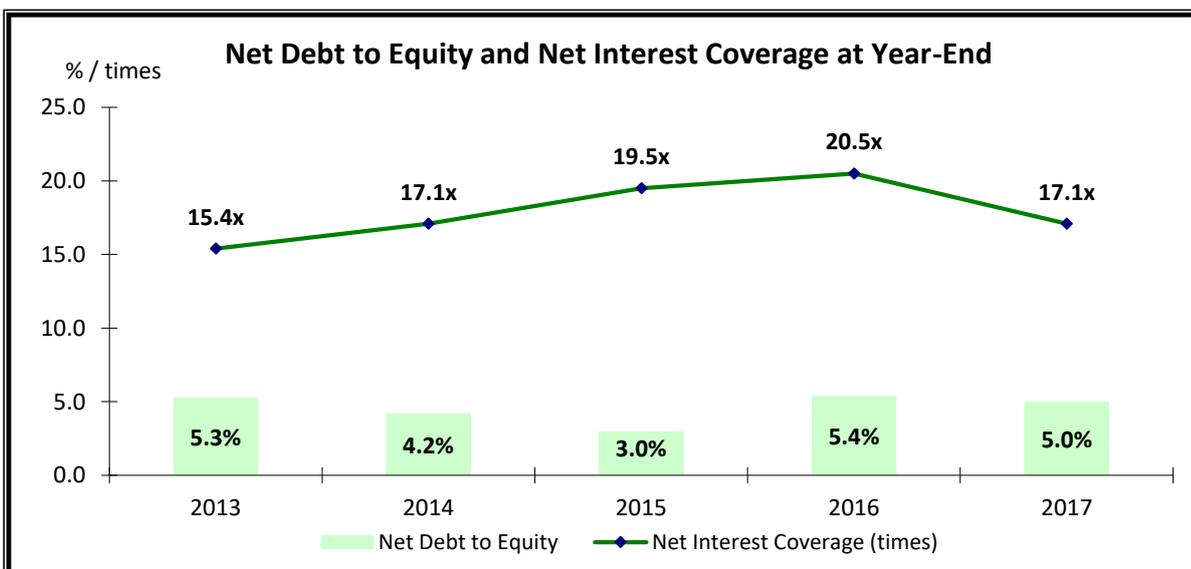
The graph below shows the debt maturity profile of the Group at year-end 2017 and 2016.



Reflecting the stable recurring cash flows from our business, the Group maintained investment-grade credit ratings of A3 as rated by Moody's and BBB+ as rated by Standard and Poor's.

The Group's gearing ratio, as measured by Net Debt to Equity ratio<sup>1</sup>, decreased from 5.4% at year-end of 2016 to 5.0% at year-end of 2017, mainly due to debt repayment in 2017. The Group's Net Interest Coverage<sup>2</sup> slightly reduced to 17.1 times for 2017 (2016: 20.5 times) mainly due to the drawdown of bank loans during 2016. The low gearing and strong ability to meet interest payments reflected the Group's resilience and capability to raise further debt if necessary.

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



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

<sup>2</sup> Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expenses.

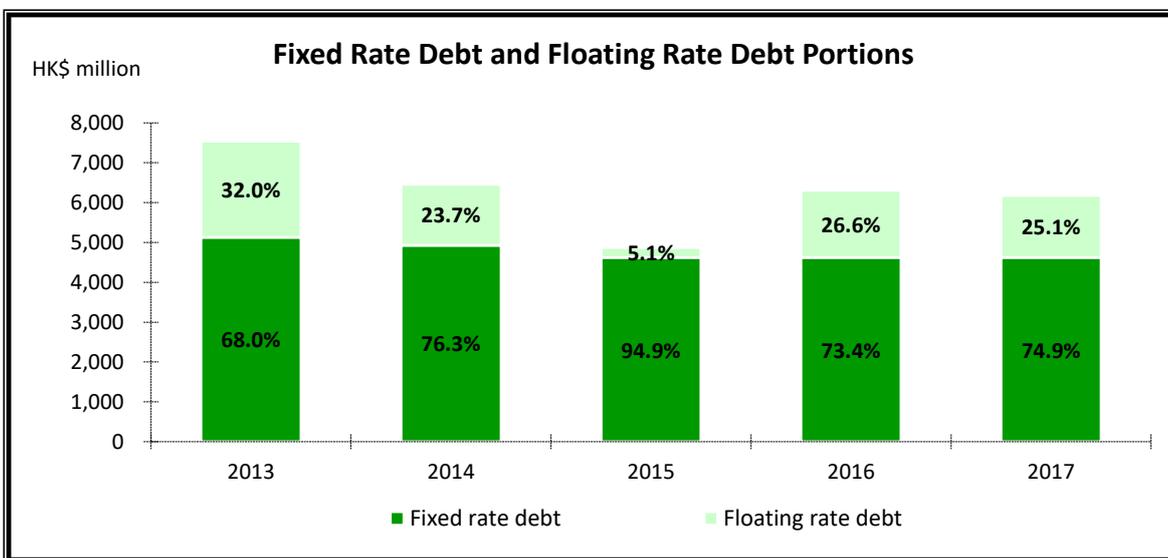
### Liquidity Management

As at 31 December 2017, the Group had cash and bank deposits totalling about HK\$2,662 million (2016: HK\$2,630 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. In order to preserve liquidity and enhance interest yields, the Group invested HK\$737 million (2016: HK\$1,155 million) in debt securities.

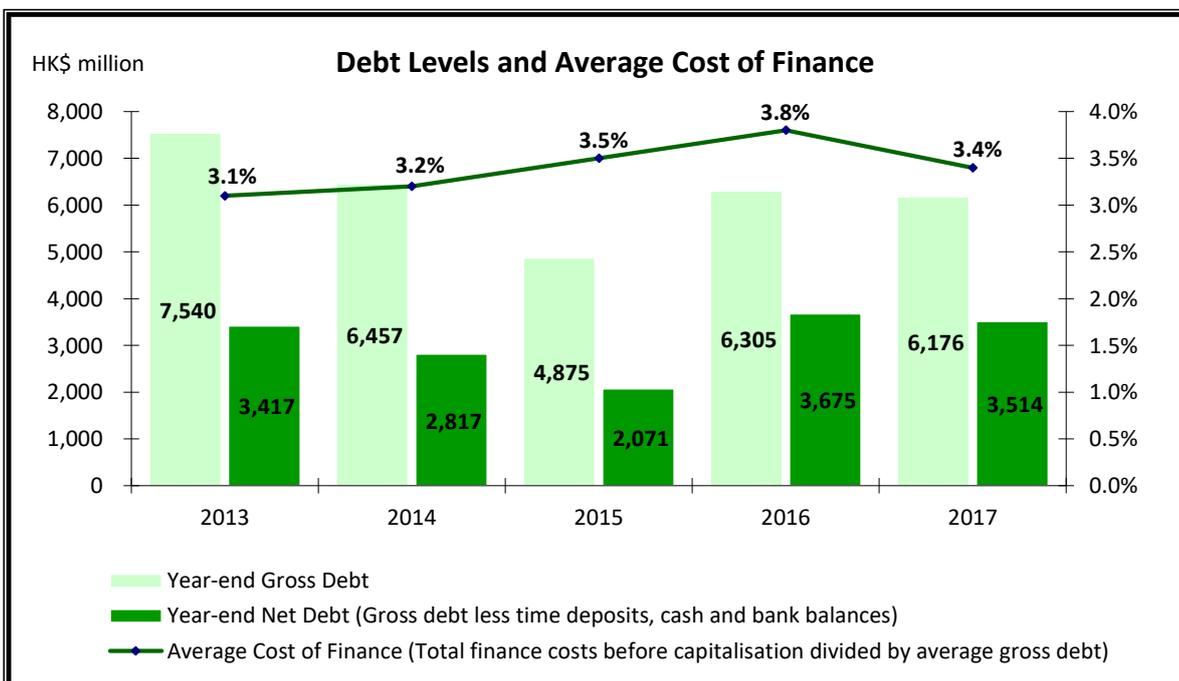
Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounted to HK\$950 million at year-end 2017 (2016: HK\$500 million), essentially allowing the Group to obtain additional liquidity as the need arises.

The fixed debt ratio increased to 74.9% at year-end 2017 from 73.4% at year-end 2016. As the U.S. has entered the interest rate normalisation cycle, the Group believes that interest rates will continue to rise in the coming years. We expect that the current fixed debt ratio will allow the Group to weather the risk of an interest rate hike cycle.

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



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



### ***Foreign Exchange Management***

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

On the investment side, as at 31 December 2017, the Group's outstanding foreign currency balances in cash, time deposits and debt securities amounted to US\$128 million (2016: US\$180 million), of which US\$70 million (2016: US\$98 million) were hedged by foreign exchange forward contracts.

Other foreign exchange exposure mainly relates to investments in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK\$3,779 million (2016: HK\$3,497 million) or 4.6% (2016: 4.4%) of total assets.

### ***Use of Derivatives***

As at 31 December 2017, outstanding derivatives were mainly related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or to adjust the appropriate risk profile of the Group's treasury assets and liabilities.

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

## **FINANCIAL INFORMATION**

The financial information relating to the years ended 31 December 2017 and 2016 in this announcement does not constitute the Company's statutory consolidated financial statements for those years, but represents an extract from those consolidated financial statements. The final results of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company.

The Company has delivered the consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2017 in due course. The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

### **Scope of Work of Messrs. Deloitte Touche Tohmatsu**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	<u>Notes</u>	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
Turnover	3	<b>3,548</b>	3,535
Property expenses		<b>(449)</b>	(428)
Gross profit		<b>3,099</b>	3,107
Other income		<b>261</b>	-
Investment income		<b>69</b>	50
Administrative expenses		<b>(247)</b>	(219)
Finance costs		<b>(158)</b>	(178)
Change in fair value of investment properties		<b>853</b>	(1,187)
Share of results of associates		<b>220</b>	237
Profit before taxation		<b>4,097</b>	1,810
Taxation	5	<b>(484)</b>	(463)
<b>Profit for the year</b>	6	<b>3,613</b>	1,347
Profit for the year attributable to:			
Owners of the Company		<b>3,636</b>	1,218
Non-controlling interests		<b>(23)</b>	129
		<b>3,613</b>	1,347
<b>Earnings per share</b> (expressed in HK cents)	7		
Basic		<b>347.78</b>	116.35
Diluted		<b>347.68</b>	116.33

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<u>Note</u>	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
<b>Profit for the year</b>		<b>3,613</b>	1,347
<b>Other comprehensive income</b>	8		
<b><i>Items that will not be reclassified subsequently to profit or loss:</i></b>			
Gains on revaluation of properties held for own use		<b>38</b>	18
<b><i>Items that may be reclassified subsequently to profit or loss:</i></b>			
Net adjustments to hedging reserve		<b>(55)</b>	78
Share of translation reserve of associates		<b>240</b>	(236)
		<b>185</b>	(158)
Other comprehensive income (expense) for the year (net of tax)		<b>223</b>	(140)
<b>Total comprehensive income for the year</b>		<b>3,836</b>	1,207
Total comprehensive income attributable to:			
Owners of the Company		<b>3,859</b>	1,078
Non-controlling interests		<b>(23)</b>	129
		<b>3,836</b>	1,207

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<u>Notes</u>	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
<b>Non-current assets</b>			
Investment properties		72,470	69,633
Property, plant and equipment		751	720
Investments in associates		3,779	3,497
Loans to associates		10	-
Investment in a joint venture		147	145
Loans to a joint venture		982	873
Fund investment		21	-
Term notes		228	733
Other financial assets		2	13
Other receivables	10	332	135
		<u>78,722</u>	<u>75,749</u>
<b>Current assets</b>			
Loans to a joint venture		-	1,018
Accounts and other receivables	10	226	196
Term notes		509	422
Other financial assets		1	6
Time deposits		2,505	2,551
Cash and bank balances		157	79
		<u>3,398</u>	<u>4,272</u>
<b>Current liabilities</b>			
Accounts payable and accruals	11	736	935
Other financial liabilities		1	-
Rental deposits from tenants		389	339
Amounts due to non-controlling interests		327	327
Borrowings		150	1,180
Taxation payable		158	112
		<u>1,761</u>	<u>2,893</u>
<b>Net current assets</b>		<u>1,637</u>	<u>1,379</u>
<b>Total assets less current liabilities</b>		<u>80,359</u>	<u>77,128</u>
<b>Non-current liabilities</b>			
Borrowings		6,035	5,113
Other financial liabilities		30	1
Rental deposits from tenants		506	578
Deferred taxation		787	751
		<u>7,358</u>	<u>6,443</u>
<b>Net assets</b>		<u>73,001</u>	<u>70,685</u>
<b>Capital and reserves</b>			
Share capital		7,692	7,673
Reserves		62,261	59,817
<b>Equity attributable to owners of the Company</b>		<u>69,953</u>	<u>67,490</u>
<b>Non-controlling interests</b>		<u>3,048</u>	<u>3,195</u>
<b>Total equity</b>		<u>73,001</u>	<u>70,685</u>

Notes:

**1. Basis of Preparation**

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance.

**2. Principal Accounting Policies**

The principal accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current year, the Group has applied all of the amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for the Group’s financial year beginning on 1 January 2017. The adoption of these amendments to HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

Except for HKFRS 9, which has been partially adopted by the Group as stated below, the Group has not early applied the following new, revised and amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>3</sup>
HKFRS 17	Insurance Contract <sup>5</sup>
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures <sup>3</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018, except for the 2010 version of HKFRS 9 and the new requirements for hedge accounting issued in 2013, which the Group early adopted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

Except for the new HKFRSs mentioned below, the Directors of the Company anticipate that the application of these new standards, amendments and interpretations to HKFRSs will have no material impact on the Group’s accounting policies, results and financial position.

The application of HKFRS 9 (except for those sections that were early adopted by the Group) may result in changes in the Group's accounting policies in respect of measuring debt instruments at fair value through other comprehensive income, if applicable, and recognition of impairment of financial assets at amortised cost by applying the expected credit loss model of HKFRS 9. Based on the financial instruments and business model of the Group as at 31 December 2017, the directors of the Company anticipated that the application of HKFRS 9 will have no material impact on the results and financial position of the Group.

The Group currently considers refundable rental deposits received of HK\$895 million as at 31 December 2017 as obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of rental deposits may be adjusted to amortised cost upon application of HKFRS 16. Adjustments to refundable rental deposits received would be considered as advance lease payments from lessees. The directors of the Company are in the process of assessing the impact on the application of HKFRS 16 in the foreseeable future.

### **3. Turnover**

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

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

### **4. Segment Information**

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

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

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

Residential segment – leasing of luxury residential properties and related facilities

Property development segment – development and sale of properties

In 2017, the Group's management began to monitor and review the operation of the Group's joint venture separately from other segments of the Group on a regular basis. Therefore, a separate operating and reportable segment is disclosed as property development. The figures for the year ended 31 December 2016 has been represented accordingly for comparative purpose.

### **Segment turnover and results**

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

	<u>Retail</u> <i>HK\$ million</i>	<u>Office</u> <i>HK\$ million</i>	<u>Residential</u> <i>HK\$ million</i>	<u>Property</u> <u>Development</u> <i>HK\$ million</i>	<u>Consolidated</u> <i>HK\$ million</i>
<b>For the year ended</b>					
<b>31 December 2017</b>					
<b>Turnover</b>					
Gross rental income from investment properties	1,781	1,210	236	-	3,227
Management fee income	144	149	28	-	321
<b>Segment revenue</b>	<b>1,925</b>	<b>1,359</b>	<b>264</b>	<b>-</b>	<b>3,548</b>
Property expenses	(253)	(142)	(54)	-	(449)
<b>Segment profit</b>	<b>1,672</b>	<b>1,217</b>	<b>210</b>	<b>-</b>	<b>3,099</b>
Other income					261
Investment income					69
Administrative expenses					(247)
Finance costs					(158)
Change in fair value of investment properties					853
Share of results of associates					220
Profit before taxation					4,097
<b>For the year ended</b>					
<b>31 December 2016</b>					
<b>Turnover</b>					
Gross rental income from investment properties	1,829	1,142	244	-	3,215
Management fee income	140	150	30	-	320
<b>Segment revenue</b>	<b>1,969</b>	<b>1,292</b>	<b>274</b>	<b>-</b>	<b>3,535</b>
Property expenses	(227)	(149)	(52)	-	(428)
<b>Segment profit</b>	<b>1,742</b>	<b>1,143</b>	<b>222</b>	<b>-</b>	<b>3,107</b>
Investment income					50
Administrative expenses					(219)
Finance costs					(178)
Change in fair value of investment properties					(1,187)
Share of results of an associate					237
Profit before taxation					1,810

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

Segment profit represents the profit earned by each segment without allocation of other income, investment income, administrative expenses (including central administrative costs and directors' salaries), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the chief operating decision maker of the Group for the purpose of resource allocation and performance assessment.

### **Segment assets**

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

	<u>Retail</u> HK\$ million	<u>Office</u> HK\$ million	<u>Residential</u> HK\$ million	<u>Property</u> <u>Development</u> HK\$ million	<u>Consolidated</u> HK\$ million
<b>As at 31 December 2017</b>					
<b>Segment assets</b>	<b>33,195</b>	<b>31,325</b>	<b>7,961</b>	<b>1,129</b>	<b>73,610</b>
Investments in and loans to associates					3,789
Fund investment					21
Other assets					4,700
Consolidated assets					<u>82,120</u>
<b>As at 31 December 2016</b>					
<b>Segment assets</b>	33,089	23,833	7,859	2,036	66,817
Investment properties under Redevelopment ( <i>note</i> )					4,860
Investment in an associate					3,497
Other assets					4,847
Consolidated assets					<u>80,021</u>

Segment assets represented the investment properties and accounts receivable of each segment; and investment in and loans to a joint venture of property development segment without allocation of investment properties under redevelopment, property, plant and equipment, investments in and loans to associates, fund investment, term notes, other financial assets, other receivables, time deposits, cash and bank balances. This is the measure reported to the chief operating decision maker of the Group for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profit.

No segment liabilities analysis is presented as the Group's management monitors and manages all the liabilities on a group basis.

Other than the investment in an associate, which operated in the People's Republic of China (the "PRC") with carrying amounts of HK\$3,779 million (2016: HK\$3,497 million), all the Group's assets are located in Hong Kong.

### Other segment information

	<u>Retail</u> <i>HK\$ million</i>	<u>Office</u> <i>HK\$ million</i>	<u>Residential</u> <i>HK\$ million</i>	<u>Property</u> <u>Development</u> <i>HK\$ million</i>	<u>Consolidated</u> <i>HK\$ million</i>
<b>For the year ended</b>					
<b>31 December 2017</b>					
Additions to non-current assets	<b>172</b>	<b>22</b>	<b>7</b>	-	<b>201</b>
Acquisition of investment properties through acquiring subsidiaries	<b>654</b>	-	-	-	<b>654</b>
Additions to investment properties under redevelopment ( <i>note</i> )					<b>1,129</b>
					<b>1,984</b>
<b>For the year ended</b>					
<b>31 December 2016</b>					
Additions to non-current assets	325	95	20	-	440
Additions to investment properties under redevelopment ( <i>note</i> )					570
					1,010

Note:

The investment properties under redevelopment were completed during the year ended 31 December 2017.

## 5. Taxation

	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
Current tax		
Hong Kong profits tax		
- current year	<b>458</b>	400
- overprovision in prior years	<b>(2)</b>	(1)
	<b>456</b>	399
Deferred tax	<b>28</b>	64
	<b>484</b>	463

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

## 6. Profit For The Year

	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	<u>3</u>	<u>3</u>
Depreciation of property, plant and equipment	<u>22</u>	<u>22</u>
Gross rental income from investment properties including contingent rentals of HK\$48 million (2016: HK\$46 million)	<b>(3,227)</b>	<b>(3,215)</b>
Less:		
- Direct operating expenses arising from properties that generated rental income	<b>400</b>	410
- Direct operating expenses arising from properties that did not generate rental income	<u>49</u>	<u>18</u>
	<u><b>(2,778)</b></u>	<u><b>(2,787)</b></u>
Staff costs, comprising:		
- Directors' emoluments	<b>25</b>	23
- Other staff costs including share-based payments of HK\$2 million (2016: HK\$3 million)	<u>246</u>	<u>236</u>
	<u><b>271</b></u>	<u>259</u>
Share of income tax of associates (included in share of results of associates)	<u><b>94</b></u>	<u>101</u>

## 7. Earnings Per Share

(a) Basic and diluted earnings per share

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

	<u>Earnings</u>	
	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	<u><b>3,636</b></u>	<u>1,218</u>

	<u>Number of shares</u>	
	<u>2017</u>	<u>2016</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,045,495,841</b>	1,046,870,824
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>283,181</u>	<u>170,710</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>1,045,779,022</b></u>	<u>1,047,041,534</u>

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

(b) Adjusted basic earnings per share

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

	<u>2017</u>		<u>2016</u>	
	<b>Basic earnings per share</b>		Basic earnings per share	
	<u>Profit</u>	<u>share</u>	<u>Profit</u>	<u>share</u>
	<i>HK\$ million</i>	<i>HK cents</i>	<i>HK\$ million</i>	<i>HK cents</i>
Profit for the year attributable to owners of the Company	<b>3,636</b>	<b>347.78</b>	1,218	116.35
Change in fair value of investment properties	<b>(853)</b>	<b>(81.59)</b>	1,187	113.39
Effect of non-controlling interests' shares	<b>(253)</b>	<b>(24.20)</b>	(30)	(2.87)
Share of change in fair value of investment properties (net of deferred taxation) of associates	<b>(11)</b>	<b>(1.05)</b>	(6)	(0.58)
Imputed interest income on interest-free loan to a joint venture	<b>(28)</b>	<b>(2.68)</b>	-	-
<b>Underlying Profit</b>	<b>2,491</b>	<b>238.26</b>	2,369	226.29
One-off early surrender compensation income (net of effect of taxation and non-controlling interests' share)	<b>(142)</b>	<b>(13.58)</b>	-	-
<b>Recurring Underlying Profit</b>	<b>2,349</b>	<b>224.68</b>	2,369	226.29

Notes:

- (1) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature. As there were no such adjustments in 2016, the Recurring Underlying Profit was the same as the Underlying Profit.
- (2) The denominators in calculating the adjusted earnings per share used are the same as those detailed above for basic earnings per share.

## 8. Other Comprehensive Income

	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
Other comprehensive income comprises:		
<b><i>Items that will not be reclassified subsequently to profit or loss:</i></b>		
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	46	22
Deferred taxation arising on revaluation	(8)	(4)
	<u>38</u>	<u>18</u>
<b><i>Items that may be reclassified subsequently to profit or loss:</i></b>		
Derivatives designated as cash flow hedges:		
Net (losses) gains arising during the year	(49)	77
Reclassification adjustments for net (losses) gains included in profit or loss	(6)	1
	<u>(55)</u>	<u>78</u>
Share of translation reserve of an associate	240	(236)
	<u>185</u>	<u>(158)</u>
Other comprehensive income (expenses) for the year (net of tax)	<u>223</u>	<u>(140)</u>

## 9. Dividends

(a) Dividends recognised as distribution during the year:

	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
2017 first interim dividend paid – HK26 cents per share	272	-
2016 first interim dividend paid – HK26 cents per share	-	272
2016 second interim dividend paid – HK109 cents per share	1,139	-
2015 second interim dividend paid – HK107 cents per share	-	1,122
	<u>1,411</u>	<u>1,394</u>

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

	<u>2017</u> <i>HK\$ million</i>	<u>2016</u> <i>HK\$ million</i>
Second interim dividend (in lieu of a final dividend) - HK111 cents per share (2016: HK109 cents per share)	<u>1,161</u>	<u>1,139</u>

The second interim dividend is not recognised as a liability as at 31 December 2017 because it has been declared after the end of the reporting period. Such dividend will be accounted for as an appropriation of the retained profits in the year ending 31 December 2018.

The declared second interim dividend will be payable in cash.

## 10. Accounts and Other Receivables

	<u>2017</u> HK\$ million	<u>2016</u> HK\$ million
Accounts receivable	11	8
Interest receivable	44	50
Prepayments in respect of investment properties	283	76
Other receivables and prepayments	220	197
Total	<u>558</u>	<u>331</u>
Analysed for reporting purposes as:		
Current assets	226	196
Non-current assets	332	135
	<u>558</u>	<u>331</u>

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK\$11 million (2016: HK\$8 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

At the end of the reporting period, HK\$3 million (2016: nil) of the accounts receivable were past due but not impaired as the accounts receivables are generally fully covered by the rental deposits from corresponding tenants.

## 11. Accounts Payable and Accruals

	<u>2017</u> HK\$ million	<u>2016</u> HK\$ million
Accounts payable	215	149
Interest payable	74	75
Other payables	447	450
Compensation received in advance ( <i>note</i> )	-	261
	<u>736</u>	<u>935</u>

*Note:*

*The amount represented a one-off early surrender compensation received from a tenant which has been recognised as compensation income under other income during the year ended 31 December 2017 at the date of fulfilment of all conditions set out in the surrender agreement.*

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$157 million (2016: HK\$103 million) were aged less than 90 days.

## **ADDITIONAL INFORMATION**

### **Corporate Governance**

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Board had adopted a Statement of Corporate Governance Policy which gives guidance on how corporate governance principles are applied to the Company. In addition to complying with applicable statutory requirements, we aim to continually review and enhance our corporate governance practices in the light of local and international best practices.

The Company meets the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The Board reviews its corporate governance practices continuously to cope with the evolving needs of the Group. Further information on the Company's corporate governance practices is available on our website at [www.hysan.com.hk](http://www.hysan.com.hk).

### **Corporate Responsibility and Sustainability**

The Group's first Corporate Responsibility Report was published in 2006. This year's report is the 12th report we have produced focusing on our social and environmental efforts.

The Group's corporate responsibility and sustainability performance are set out in the "Corporate Responsibility Report 2017" in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules. The reported information has been verified by Hong Kong Quality Assurance Agency and will be available on our website at [www.hysan.com.hk](http://www.hysan.com.hk).

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")**

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

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Human Resources Practices**

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2017 was 482. The Group's human resources practices are aligned with our corporate objectives so as to maximise shareholder value and achieve growth. Details on our human resources programs, training and development are set out in the "2017 Corporate Responsibility Report".

### **Closure of Register of Members**

The second interim dividend will be paid to shareholders whose names appear on the register of members on Thursday, 15 March 2018 and the payment date will be on or about Thursday, 29 March 2018. The register of members will be closed on Thursday, 15 March 2018, on which date no transfer of shares will be registered. The ex-dividend date will be Tuesday, 13 March 2018. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 14 March 2018.

The register of members will also be closed from Thursday, 3 May 2018 to Tuesday, 8 May 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Company's forthcoming annual general meeting (the "AGM"), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Standard Limited at the abovementioned address, not later than 4:00 p.m. on Wednesday, 2 May 2018.

## **AGM**

The AGM will be held at Meeting Room N201, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong (use Expo Drive Entrance) on Tuesday, 8 May 2018. The Notice of AGM will be published on the website of the Company ([www.hysan.com.hk](http://www.hysan.com.hk)) and the designated issuer website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)), and despatched to shareholders around end of March 2018.

By Order of the Board  
**Lee Irene Yun-Lien**  
Chairman

Hong Kong, 28 February 2018

*As at the date of this announcement, the Board comprises: Lee Irene Yun-Lien (Chairman), Churchouse Frederick Peter\*\*, Fan Yan Hok Philip\*\*, Lau Lawrence Juen-Yee\*\*, Poon Chung Yin Joseph\*\*, Jebson Hans Michael\* (Yang Chi Hsin Trevor as his alternate), Lee Anthony Hsien Pin\* (Lee Irene Yun-Lien as his alternate), Lee Chien\* and Lee Tze Hau Michael\*.*

\* Non-Executive Directors

\*\* Independent Non-Executive Directors

*This final results announcement is published on the website of the Company ([www.hysan.com.hk](http://www.hysan.com.hk)) and the designated issuer website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The Annual Report 2017 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites around end of March 2018.*