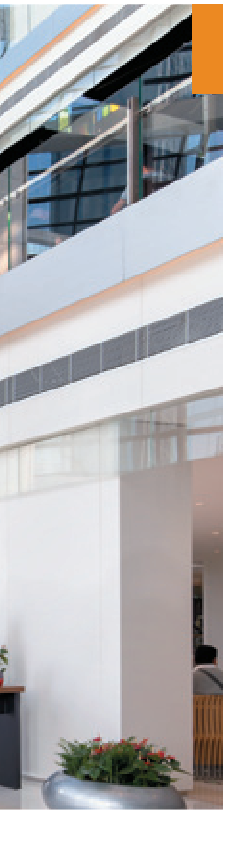
# Cohesion

"One heart and one mind" is an article of faith for a team aiming for a shared goal. It also leads every one of us in Hang Lung to row to the same rhythm, and each innovative idea and groundbreaking initiative drives the Company onward to success.




SAMSUNG
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# Financial Review

## CONSOLIDATED RESULTS

For the financial year ended December 31, 2016, total revenue of the Hang Lung Group Limited and its subsidiaries (the Group) increased 43% to HK$13,648 million driven by higher contribution from property sales. Benefitting from more residential units sold during the year, property sales revenue surged 344% to HK$5,322 million. Revenue of property leasing was flat at HK$8,326 million, or up 3% if excluding the 6% year-on-year Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD). Total operating profit of the Group advanced 34% to HK$9,338 million.

Underlying net profit attributable to shareholders increased 40% to HK$3,772 million. After including a revaluation loss on investment properties, net profit attributable to shareholders increased 16% to HK$3,713 million. Earnings per share increased similarly to HK$2.73.

### REVENUE AND OPERATING PROFIT

| | Revenue | | | Operating Profit | | |
|---|---|---|---|---|---|---|
| | **2016 HK$ Million** | 2015 HK$ Million | Change | **2016 HK$ Million** | 2015 HK$ Million | Change |
| **Property Leasing** | **8,326** | 8,330 | – | **6,129** | 6,110 | – |
| Mainland China | **4,427** | 4,625 | -4% | **2,814** | 3,005 | -6% |
| Hong Kong | **3,899** | 3,705 | 5% | **3,315** | 3,105 | 7% |
| **Property Sales** | **5,322** | 1,198 | 344% | **3,209** | 845 | 280% |
| **Total** | **13,648** | 9,528 | 43% | **9,338** | 6,955 | 34% |

## PROPERTY LEASING

During 2016, Hong Kong and the Mainland continued to experience a market correction and shifting consumer demand. In the major shopping districts in Hong Kong and Tier 1 cities on the Mainland, store closures, vacancies and delayed openings by major brands were commonplace.

In Hong Kong, gross domestic product (GDP) growth for full year 2016 is now forecast at 1.5%. Retail sales have fallen for almost two years. The first 11 months of 2016 posted an average drop in sales of 8.6% year-on-year. Mainland tourists have been spending overseas and arrivals in Hong Kong have shrunk by 7.8% over January to November 2016.

GDP growth in mainland China for 2016 was 6.7% which was lower than previous years. Retail sales remained sluggish, resulting in delayed mall openings and high vacancy rates in newly opened shopping centers.

Facing these challenges, we continued our focus on tenant reshuffling to enhance our mall positioning and optimize rental yield, launching creative and effective promotion campaigns, and implementing various cost control measures, etc. In light of the current down cycle, we continue to upgrade our facilities and service standards to enhance customer experience and loyalty.

On May 1, 2016, the final phase of the transition from the Business Tax to Value Added Tax (VAT) regime in mainland China took effect and became applicable to the real estate sector, among other industries. We took appropriate measures to implement the new tax regime accordingly.

For the financial year ended December 31, 2016, total revenue of our leasing properties in Hong Kong and on the Mainland stayed flat at HK$8,326 million, or up 3% when excluding the 6% RMB depreciation effect during 2016. Benefitting from asset enhancement initiatives and tenant mix optimization, revenue of our Hong Kong leasing portfolio advanced 5%. Revenue of our investment properties in mainland China, which accounted for 53% of total leasing revenue of the Group, recorded a moderate growth of 2% in RMB terms, mainly driven by contributions from the new shopping mall in Dalian and the office tower in Shenyang.

Total operating profit was flat at HK$6,129 million. Overall rental margin was 74%.

## Mainland China

Overall revenue of the mainland China portfolio increased 2% to RMB3,785 million, mainly driven by contribution from the new Dalian Olympia 66 mall and higher revenue from the Shenyang Forum 66 office tower. Operating profit stayed flat at RMB2,405 million, and margin fell one point to 64% due to lower profitability of new properties during start-up period.

### MAINLAND CHINA PROPERTY LEASING PORTFOLIO

| | Revenue | | | Occupancy Rate at Year-end 2016 | |
|---|---|---|---|---|---|
| **Name and City of the Property** | **2016 RMB Million** | 2015 RMB Million | Change | Mall | Office |
| Shanghai Plaza 66 | **1,305** | 1,341 | -3% | 93% | 95% |
| Shanghai Grand Gateway 66 | **1,343** | 1,307 | 3% | 96% | 89% |
| Shenyang Palace 66 | **142** | 137 | 4% | 93% | N/A |
| Shenyang Forum 66 | **230** | 227 | 1% | 84% | 58% |
| Jinan Parc 66 | **262** | 269 | -3% | 91% | N/A |
| Wuxi Center 66 | **224** | 237 | -5% | 80% | 65% |
| Tianjin Riverside 66 | **191** | 193 | -1% | 82% | N/A |
| Dalian Olympia 66* | **88** | 4 | N/A | 66% | N/A |
| **Total** | **3,785** | 3,715 | 2% | | |
| Total in HK$ Million equivalent | **4,427** | 4,625 | -4% | | |

* Grand opening on September 9, 2016.

### *Shopping Malls*

Our eight shopping malls in mainland China generated RMB2,633 million in rents collectively during 2016, stayed flat year-on-year. The contribution from the new Dalian Olympia 66 mall was largely offset by rental interruption to the Shanghai Plaza 66 mall due to renovation works and negative rental reversions at some malls outside Shanghai.

In 2016, the Group executed a major asset enhancement program at the Shanghai Plaza 66 mall, which has been in operation for about 15 years. This program was carefully planned, taking the opportunity of an economic down cycle to minimize the adverse effect of income interruption.

During the renovation, the entire basement representing over 13% of the leasable area of the mall was closed from March 2016. The renovation works were substantially completed and some tenants have already commenced fitting out works. The brand new basement, which was almost fully leased by the year-end, will re-open for business in early 2017. Consequently, revenue of the Shanghai Plaza 66 mall decreased 5% to RMB678 million, but was up 6% when excluding the renovation areas. By the end of 2016, occupancy rate was 93%.

Rental revenue of the Shanghai Grand Gateway 66 mall, our other flagship mall in Shanghai, increased 1% to RMB974 million driven by positive rental reversions. The Grand Gateway 66 mall also commenced its major renovation in the last quarter of 2016. About 28% of the leasable area of the mall will be closed in phases in 2017. Occupancy rate of the Shanghai Grand Gateway 66 mall decreased by one point to 96% by the end of 2016, as some leases were renewed on a short-term basis and a small number of leases were not renewed pending the imminent commencement of renovation. Although the asset enhancement program will result in a short-term disruption to revenue, it will enhance the mall's long-term competitiveness and profitability.

In a challenging environment, revenue of our six shopping malls outside Shanghai increased 1% to RMB981 million. The performance of the Shenyang Palace 66 mall was resilient, posting a 4% rental growth year-on-year. By the end of 2016, occupancy rate of Palace 66 increased three points to 93%.

Revenue of Jinan Parc 66 and Tianjin Riverside 66 decreased 3% and 1%, respectively. Amidst tenant reshuffling, occupancy of Jinan Parc 66 increased three points to 91%. The improvement was consistent with the strategy of a gradual tenants upgrade, led by the grand opening of the first Apple Store in Jinan at Parc 66 in May 2016. Apple also chose Tianjin Riverside 66 as the home of its first flagship store in China designed by world renowned architect Norman Foster. The store opened in March 2016. Occupancy rate of the Riverside 66 mall was down four points to 82% by the end of 2016.

The malls at Shenyang Forum 66 and Wuxi Center 66, which housed a relatively larger number of high-end tenants, were severely hit by sluggish retail market sentiment. They suffered from non-renewals and early terminations and had to make some downward adjustments to rents. Total revenue of these two malls dropped 18% year-on-year. Occupancy of the Forum 66 mall retreated by three points to 84%. With more new leases concluded in the second half, occupancy rate of the Center 66 mall improved eight points to 80% at year-end date. Nevertheless, with the increasing popularity of their Grade A office towers and the continuous efforts made on tenant reshuffling, it is expected that the performance of these two malls will improve progressively.

The new Dalian Olympia 66 mall had its grand opening on September 9, 2016. Occupancy increased to 66% by the end of 2016. The mall offers an enriched tenant mix and a unique shopping experience, with brands including Apple Store, Coach, Moschino, Palace Cinema, Olé supermarket and up-market fashion retailers like H&M and UNIQLO.

### *Offices*

Rental income of our entire office portfolio in mainland China increased 5% to RMB1,015 million, mainly driven by higher contributions from the new office towers in Wuxi and Shenyang.

Revenue of the two office towers at Shanghai Plaza 66 was flat at RMB627 million. The enhancement works for Office Tower One were almost completed during the year. A similar program for Office Tower Two also commenced in the fourth quarter of 2016. The whole upgrade program will be completed in phases by 2018. The remaining enhancement works will not have much adverse impact on the revenue of Plaza 66. Overall occupancy rate of the Plaza 66 office towers slipped three points to 95% by the end of 2016, mainly due to a transitional void as a result of relocation of a major tenant from Tower One to Tower Two.

Revenue of the office tower at Shanghai Grand Gateway 66 decreased 2% to RMB232 million. Occupancy rate dropped eight points to 89% by the end of 2016 mainly due to some leases expiring before year-end.

Amidst a challenging market environment, the performance of the Grade A office towers at Wuxi Center 66 and Shenyang Forum 66 was satisfactory. During the year, we replaced certain peer-to-peer (P2P) tenants in the financial and IT sectors with top-quality major corporations and financial institutions. To name a few, UBS took up two whole floors of the Wuxi Center 66 office tower while Bank of China occupied six whole floors of the Shenyang Forum 66 office tower. Meanwhile, the conversion of the upper 19 floors of the Forum 66 office tower into a Conrad Hotel with 315 rooms and suites is progressing well. Leasing inquiries for both office towers remained strong. We are confident that they will assume a leading position in their respective markets in future. Total revenue of these office towers at Wuxi Center 66 and Shenyang Forum 66 amounted to RMB156 million, representing a 58% growth year-on-year.

### *Residential and Serviced Apartments*

Revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai rose 26% to RMB137 million after adopting a different marketing strategy. Occupancy rate was up 11 points to 92% by the end of 2016.

## Hong Kong

Against a backdrop of slower economic growth and sliding retail sales, the performance of our leasing properties in Hong Kong was resilient. Revenue and operating profit in Hong Kong rose 5% and 7% to HK$3,899 million and HK$3,315 million, respectively. Overall rental margin was 85%.

**HONG KONG PROPERTY LEASING PORTFOLIO**

| | Revenue | | | Occupancy Rate at Year-end 2016 |
|---|---|---|---|---|
| | **2016 HK$ Million** | 2015 HK$ Million | Change | |
| Commercial | **2,275** | 2,092 | 9% | 96% |
| Office and Industrial/Office | **1,336** | 1,299 | 3% | 92% |
| Residential & Serviced Apartments | **288** | 314 | -8% | 76% |
| **Total** | **3,899** | 3,705 | 5% | |

### *Commercial*

Revenue of the Hong Kong commercial portfolio advanced 9% to HK$2,275 million as the benefits of asset enhancement initiatives continued to flow through. Overall occupancy was 96% by the end of 2016.

The Causeway Bay portfolio generated 12% more in rents year-on-year. In May 2016, adidas opened a 14,500 square feet sports performance flagship store at Hang Lung Centre, combining shopping with a training experience for sports lovers. Taken together with the 4-story flagship store of H&M which opened in October 2015, Hang Lung Centre is now a dynamic hub for fashion and sporting trend-setters. During the year, Maje, Sandro, MO&Co., Reebok Classic and Fjällräven, etc., were added to the array of brands at Fashion Walk. The opening of the renowned stylish New York patisserie, Lady M's Hong Kong flagship, in June 2016 further increased the popularity of the Food Street at Fashion Walk. The brand new Fashion Walk look, as a result of the major renovation program started in 2013, presents an attractive cluster of fashion, dining and lifestyle offerings.

Revenue of our properties in Mongkok increased 21% mainly attributable to rental reversions resulting from completion of the asset upgrade at Gala Place. In January 2016, H&M unveiled its 54,000 square feet full-concept flagship store at Gala Place. Together with the opening of the largest single floor concept store of Starbucks in Hong Kong in December 2015, Gala Place is now a fashionable regional destination. In light of decreasing numbers of visitors from mainland China, the performance of our jewelry and watch tenants at Grand Plaza was adversely affected. Their sales declined by about 27% on average. The food & beverage tenants at Grand Plaza were more resilient in the current economic climate, and their sales improved by 16% year-on-year.

The performance of our two community malls, Kornhill Plaza in Hong Kong East and Amoy Plaza in Kowloon East, was resilient in a challenging environment. More efforts were made to improve the zoning and to enrich the offerings of these two malls during the year. Kornhill Plaza collected 6% more in rents attributable to positive rental reversions. Its major tenant, AEON STYLE, completed a major refurbishment in the second quarter of 2016 and re-opened in July. Revenue of Amoy Plaza advanced 5% driven by a better tenant mix.

Our Central commercial portfolio recorded a moderate rental growth amidst a subdued retail climate. Overall occupancy at the year-end was 87%.

We will continue our efforts to upgrade various properties progressively. Renovation of the Peak Galleria will commence in the first quarter of 2017. The entire asset enhancement program will take about three years and will be completed in phases by 2019. The tenant mix of the Fashion Walk lifestyle zone located in Cleveland Street in Causeway Bay will be further enhanced in 2017. As a result of the renovation works, there will be a short-term disruption to the revenue of these two properties. However, these programs will, upon completion, provide an impetus to long-term rental growth while enhancing the charm of The Peak as a major attraction of Hong Kong.

### *Offices*

Revenue of the entire Hong Kong office portfolio increased 3% to HK$1,336 million attributable to positive rental reversions. Overall occupancy rate decreased three points to 92% largely due to a transitional void arising from some recent lease expiries. Hang Lung Centre in Causeway Bay, in which the lift lobby and car parking spaces were upgraded during the year, posted a 5% rental growth year-on-year. The Central office portfolio collected 2% more in rents. Revenue of the Mongkok offices slipped 1% year-on-year.

### *Residential and Serviced Apartments*

Rental income of residential and serviced apartments decreased 8% to HK$288 million due to lower occupancy rates. Demand for the luxury apartments at The Summit remained soft as the housing allowances of corporate clients remained tight. Kornhill Apartments faced keen competition from hotels, which offered deep discounts in response to the decreasing number of visitors from mainland China.

## PROPERTY SALES

Benefitting from the sales of more residential units during 2016, revenue of property sales surged 344% to HK$5,322 million. The sales comprised 436 units of The Long Beach flats (2015: 36 units), two semi-detached houses at 23-39 Blue Pool Road (2015: Nil), one duplex at The HarbourSide (2015: 10 typical units) and the last two apartments of Carmel-on-the-Hill (2015: Nil). Correspondingly, profit from property sales increased 280% to HK$3,209 million. Overall profit margin was 60%.

As at December 31, 2016, the book cost of the residential properties available for sale was HK$2,374 million, which included 16 semi-detached houses at Blue Pool Road, 236 units of The Long Beach and one duplex of The HarbourSide.

## PROPERTY REVALUATION

As at December 31, 2016, our investment properties were revalued by Savills, an independent valuer. The total value of our investment properties amounted to HK$133,005 million at the year-end of 2016. That comprised the value of the Hong Kong portfolio of HK$60,483 million and the mainland China portfolio amounting to HK$72,522 million.

An overall revaluation loss of HK$254 million was recorded in 2016, compared to a gain of HK$676 million in 2015. The mainland China portfolio had a revaluation loss of HK$798 million mainly due to lower valuation of the malls at Forum 66 in Shenyang and Center 66 in Wuxi. The Hong Kong portfolio recorded a revaluation gain of HK$544 million, of which HK$340 million was attributable to the revaluation gain of some car parking spaces that were previously held as properties for sale and stated as costs. With the change of intention of holding those car parking spaces from properties for sale to investment properties, it was necessary to revalue them in accordance with the accounting rules.

## PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

As at December 31, 2016, the total value of the investment properties under development was HK$16,160 million. They comprised mainland China projects in Kunming, Wuhan and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of shopping malls, office towers and serviced apartments.

The foundation work of the second office tower at Wuxi Center 66 is in progress and the main contractor work will be awarded in the first half of 2017. The Center 66 Office Tower 2 with a gross floor area of 56,000 square meters will be built above the southeastern part of the Center 66 mall. The construction work is expected to be completed in 2019.

The construction work of Kunming Spring City 66 is progressing as planned. Total gross floor area of the entire complex is 432,000 square meters, comprising a world-class shopping center, a Grade A office tower, serviced apartments and car parking spaces. The shopping mall of Spring City 66 is scheduled to open at end of 2018.

Wuhan Heartland 66, covering a total gross floor area of 460,000 square meters, is a prestigious commercial project which will house a shopping mall of 177,000 square meters, a Grade A office tower, serviced apartments and car parking spaces. This project is scheduled for completion, in stages, from 2019 onwards.

In July 2016, the conversion of the upper 19 floors of the 67-story Grade A office tower at Shenyang Forum 66 into a hotel was officially approved. Under the esteemed Conrad brand, this five-star hotel is expected to open in 2019 and will have 315 exquisitely appointed guest rooms and suites. The addition of a five-star hotel will complement our vision of the Forum 66 as the destination of choice for high-end shopping, entertainment, business and hospitality experiences in Shenyang.

These projects represented the majority of the Group's capital commitments at the reporting date, amounting to HK$37 billion. They will be completed in phases over many years and the Group has ample financial resources to meet the funding needs.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group centrally manages financial resources and related risks. The aims are to maintain an appropriate degree of liquidity and ample financial resources to meet foreseeable funding needs. Funding sources are well-diversified. All related risks, including debt management, foreign exchange exposure, and interest rates volatility are centrally controlled and managed by the group treasury.

### *Liquidity Management*

The cash flow position and major capital expenditure are closely monitored to ensure that the Group has a good degree of flexibility and liquidity to meet operational requirements and seize growth opportunities. This is achieved by keeping sufficient cash resources, having adequate undrawn committed banking facilities available, and maintaining the Medium Term Note (MTN) Program for bond issuance.

As at December 31, 2016, the Group had total cash and bank balances of HK$24,524 million (December 31, 2015: HK$31,482 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. About 88% of the liquid funds were held as RMB bank deposits, as a natural hedge for meeting future construction payments of projects under development in mainland China.

The currencies of cash and bank balances at the reporting date were as follows:

| | **At December 31, 2016** | | At December 31, 2015 | |
|---|---|---|---|---|
| | **HK$ Million** | % of Total | HK$ Million | % of Total |
| Denominated in: | | | | |
| RMB | **21,563** | 87.9% | 30,164 | 95.8% |
| HKD | **2,950** | 12.0% | 1,306 | 4.2% |
| USD | **11** | 0.1% | 12 | – |
| **Total cash and bank balances** | **24,524** | 100% | 31,482 | 100% |

As at December 31, 2016, the available amount of undrawn committed banking facilities and the undrawn balance of the USD3 billion MTN Program were HK$13,052 million and HK$10,523 million, respectively.

### *Debt Management*

The Group manages the debt portfolio with a focus on mitigating the re-financing and interest rate risks. These risks are well managed by maintaining an appropriate mix of fixed/floating rate borrowings and a well-planned maturity profile.

As at December 31, 2016, total borrowings of the Group were HK$31,119 million, which were lower than those a year ago mainly due to repayment of floating rate HKD bank borrowings with the cash generated from property sales. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

| | **At December 31, 2016** | | At December 31, 2015 | |
|---|---|---|---|---|
| | **HK$ Million** | % of Total | HK$ Million | % of Total |
| Floating rate HKD bank loans | **8,145** | 26.2% | 13,695 | 36.7% |
| Floating rate RMB bank loans | **10,345** | 33.2% | 11,031 | 29.5% |
| Fixed rate bonds | **12,629** | 40.6% | 12,604 | 33.8% |
| Denominated in USD | **7,756** | 24.9% | 7,751 | 20.8% |
| Denominated in HKD | **4,873** | 15.7% | 4,853 | 13.0% |
| **Total borrowings** | **31,119** | 100% | 37,330 | 100% |

At the balance sheet date, the average tenor of the entire loan portfolio was 3.7 years (December 31, 2015: 3.6 years). The maturity profile was well staggered, with about 83% of loans repayable after 2 years:

| | **At December 31, 2016** | | At December 31, 2015 | |
|---|---|---|---|---|
| | **HK$ Million** | % of Total | HK$ Million | % of Total |
| Repayable: | | | | |
| Within 1 year | **568** | 1.8% | 6,640 | 17.8% |
| After 1 but within 2 years | **4,844** | 15.6% | 2,062 | 5.5% |
| After 2 but within 5 years | **17,154** | 55.1% | 14,567 | 39.0% |
| Over 5 years | **8,553** | 27.5% | 14,061 | 37.7% |
| **Total borrowings** | **31,119** | 100% | 37,330 | 100% |

### *Gearing Ratios & Interest Cover*

As at December 31, 2016, the Group had a net debt balance of HK$6,595 million (December 31, 2015: HK$5,848 million). Net debt to equity ratio and debt to equity ratio were at 4.8% (December 31, 2015: 4.2%) and 22.5% (December 31, 2015: 26.6%), respectively.

The average cost of borrowings during the year was 4.0% (2015: 4.0%), comprising average cost of floating rate bank borrowings at 3.7% (2015: 3.7%) and fixed rate bonds at 4.6% (2015: 4.6%). For the financial year ended December 31, 2016, total gross interest expense incurred amounted to HK$1,425 million (2015: HK$1,591 million). The decrease in gross interest expense was mainly attributable to two reasons. Firstly, the average bank borrowings balance in Hong Kong dropped because of loan repayments using cash generated from operations. Secondly, the average cost of borrowings in mainland China was reduced due to the reductions in benchmark lending rates by the People's Bank of China. After netting off a smaller amount of interest capitalization upon completion of some projects under development, finance costs charged to the statement of profit or loss amounted to HK$1,202 million (2015: HK$1,147 million).

For the year ended December 31, 2016, interest income was HK$809 million (2015: HK$1,142 million). The decrease in interest income was mainly due to both lower RMB deposit rates and a lower average deposit balance for the year. Overall, net finance costs, i.e. the excess of finance costs over interest income, in 2016 amounted to HK$393 million (2015: HK$5 million).

The key indicator for debt servicing capability, interest cover, of 2016 was 14 times (2015: 14 times).

### *Foreign Exchange Management*

The activities of the Group are exposed to foreign currency risks which mainly arise from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, it has exposure to USD arising from the two USD500 million bonds issued.

If appropriate, the Group may use derivative financial instruments for controlling or hedging foreign exchange risk exposures. Use of such instruments for speculative purposes is strictly prohibited. Derivative financial instruments currently used by the Group are cross currency swaps, with details set out in section (b) below.

Given that certain of the investments and operations are located in mainland China, the Group has exposure represented by the amount of net assets denominated in RMB. It endeavors to establish an appropriate level of external local borrowings in RMB up to the extent permitted by the prevailing regulations in order to minimize the foreign currency exposure.

### (a) RMB Exposure

The RMB exposure of the Group is mainly derived from two respects of the operations. These are, firstly, the net assets of our Mainland subsidiaries which mostly comprise investment properties such as shopping malls, office towers and projects under development. Secondly, they are the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB of those projects under development in mainland China.

At December 31, 2016, the amount of net assets on the Mainland amounted to RMB62 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation loss of HK$4,917 million, as RMB depreciated by about 6% compared to December 31, 2015. By the same token, the RMB14,238 million deposits held in Hong Kong had to be re-translated into HKD as well and they accounted for HK$1,055 million of the re-translation loss for the financial year of 2016. The total re-translation loss of HK$5,972 million for 2016 (2015: HK$6,144 million) was recognized in other comprehensive income/exchange reserve.

Our capital commitments on Mainland projects under development amounted to RMB32 billion as at December 31, 2016.

In light of increasing uncertainties in the global economy and rising volatility of the RMB exchange rate, the Group considered it appropriate to adopt an enterprise risk management approach in mitigating the currency risks rather than forming a view on which side the currency will move. Accordingly, management has taken appropriate measures to balance the impact of currency fluctuation, including using more onshore RMB debts to finance construction payments up to the limit allowed by the authorities. Regular business reviews have also been conducted to assess the level of funding needs for Mainland projects under development after taking account of various factors such as regulatory constraints on local RMB borrowings, project development timelines and the business environment. As a result of these regular updates of our business plans and changes in relevant regulations and rules, we will make necessary modifications to our currency hedging arrangements accordingly when appropriate.

### (b) USD Exposure

The USD foreign exchange exposure of the Group is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,756 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to fix the exchange rate between USD and HKD for future interest payments and principal repayments.

Accounting rules stipulate that the swap contracts be marked to market value at each reporting date. Any differences in the marked to market valuation between the reporting dates shall be treated as unrealized gain or loss for the period. For the financial year ended December 31, 2016, the swap contracts had an unrealized fair value gain of HK$203 million (2015: fair value loss of HK$101 million).

## *Charge of Assets*

Assets of the Group were not charged to any third parties as at December 31, 2016.

## *Contingent Liabilities*

The Group did not have any material contingent liabilities as at December 31, 2016.