

# Report of the Directors

The Directors have pleasure in submitting their report together with the audited consolidated Financial Statements for the year ended December 31, 2016.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, and through its subsidiaries, property development for sales and leasing, property investment for rental income, and other investments. The Company and its subsidiaries (collectively referred to as the Group) also operate in car park management and property management, and through its joint ventures, are involved in the operation of dry-cleaning.

An analysis of the revenue and trading results of the Group by operating segments during the financial year is set out in Note 3 to the Financial Statements.

## PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

A list of principal subsidiaries and joint ventures, together with their places of operations and incorporation and particulars of their issued share capital/registered capital is set out in Notes 33 and 34 to the Financial Statements.

## FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated Financial Statements on pages 142 to 205.

## DIVIDENDS

The Directors now recommend a final dividend of HK61 cents per share which, together with the interim dividend of HK19 cents per share paid on September 29, 2016, makes a total of HK80 cents per share in respect of the year ended December 31, 2016. The proposed final dividend, if approved by the shareholders at the AGM on April 27, 2017, will be paid on May 18, 2017 to shareholders whose names appear on the register of members on May 5, 2017.

## BUSINESS REVIEW

A fair review of the Group's business and a discussion and analysis of the Group's performance during the year along with the material factors underlying its results and financial position are included in the Review of Operations and Financial Review sections from pages 28 to 67 and pages 70 to 81, respectively, of this annual report. A description of the principal risks and uncertainties facing the Company can be found throughout this annual report, particularly in the Risk Management section from pages 92 to 95. The particulars of important events affecting the Company, which have occurred since the end of the financial year 2016, if any, can also be found in the abovementioned sections and the Notes to the Financial Statements. The outlook of the Group's business is discussed in the Review of Operations section from pages 28 to 67 of this annual report.





An analysis of the Group's performance using financial key performance indicators is provided in the Financial Highlights and Financial Review sections from pages 4 to 5 and pages 70 to 81, respectively, of this annual report. A discussion of the Company's environmental policies and performance and an account of the Company's relationships with its key stakeholders are provided in the Sustainable Development section from pages 84 to 89 of this annual report.

Compliance procedures are in place to ensure adherence to relevant laws and regulations, in particular, those which have a significant impact on the Group. The Audit Committee of the Company is delegated by the Board to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements. Any new enactment of, or changes in the relevant laws and regulations are communicated through regular legal updates to ensure compliance. The legal updates are circulated to all executive staff to ensure that they are aware of the changes and can disseminate relevant information to their subordinates. Reminders to relevant staff on compliance are also sent out regularly, where necessary. Training is provided, as needs arise, to build awareness.

The Group has set up systems and policies to ensure compliance with the relevant laws and regulations which have a significant impact on the Group in conducting its business, including but not limited to, the Buildings Ordinance, the Residential Properties (First-hand Sales) Ordinance, the Competition Ordinance, the Personal Data (Privacy) Ordinance, the Minimum Wage Ordinance, the Employment Ordinance, and the Occupational Safety and Health Ordinance in Hong Kong; and the Anti-Monopoly Law, the Anti-Unfair Competition Law, the Construction Law, the Labour Law and the Trade Union Law in the People's Republic of China. At a corporate level, the Company also complies with the Listing Rules, the Companies Ordinance and the SFO.

## TEN-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 206 and 207.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, both the percentage of purchases attributable to the Group's five largest suppliers combined and the percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers combined were less than 30% of the total purchases and total revenue of the Group respectively.

## DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at December 31, 2016 amounted to HK\$14,382 million (2015: HK\$12,480 million).

## **DONATIONS**

Donations made by the Group during the year amounted to HK\$20 million (2015: HK\$15 million).

## **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Group as at December 31, 2016 are set out in Note 17 to the Financial Statements.

## **BORROWING COSTS CAPITALIZATION**

Borrowing costs capitalized by the Group during the year amounted to HK\$223 million (2015: HK\$444 million).

## **MAJOR GROUP PROPERTIES**

Details of major properties of the Group as at December 31, 2016 are set out on pages 64 to 67.

## **SHARE CAPITAL**

During the year, as a result of the exercise of share options under the Company's share option scheme, 6,700,000 shares (2015: Nil), fully paid, were issued for a total consideration of HK\$137,484,000 (2015: Nil).

Details of shares issued by the Company during the year are set out in Note 20 to the Financial Statements.

## **SHARE CAPITAL OF THE COMPANY'S LISTED SUBSIDIARY**

During the year, the Company's listed subsidiary, HLPL issued 400,000 shares (2015: 11,866,000 shares), fully paid, for a total consideration of HK\$6,700,000 (2015: HK\$205,309,760) as a result of the exercise of share options under HLPL's share option scheme.

## **EQUITY-LINKED AGREEMENTS**

Other than the share option scheme of the Company as disclosed, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Particulars of the share option scheme are set out in Note 25 to the Financial Statements and the paragraphs below.





## DIRECTORS

The Directors during the year and up to the date of this report are:

Mr. Ronnie C. Chan

Mr. Philip N.L. Chen

Mr. Gerald L. Chan

Mr. Simon S.O. Ip

Prof. L.C. Tsui

Mr. Martin C.K. Liao

Prof. P.W. Liu

Mr. George K.K. Chang

Mr. Roy Y.C. Chen

Mr. H.C. Ho

Mr. Adriel W. Chan (appointed on November 19, 2016)

The brief biographical details of the Directors are set out on pages 120 to 125 and details of Directors' remuneration are set out in Note 7 to the Financial Statements.

Mr. Adriel W. Chan, being Executive Director newly appointed on November 19, 2016, will retire from the Board at the forthcoming AGM in accordance with article 94 of the Articles of Association and, being eligible, will offer himself for re-election.

In accordance with articles 103 and 104 of the Articles of Association, Mr. Gerald L. Chan, Prof. L.C. Tsui and Mr. Martin C.K. Liao will retire from the Board by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at <http://www.hanglunggroup.com> under Corporate Governance of the Investor Relations section.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

Save as disclosed, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director or his/her connected entity was materially interested, whether directly or indirectly, subsisted at any time during or at the end of the year.

## PERMITTED INDEMNITY

Pursuant to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the Companies Ordinance. Such permitted indemnity provision for the benefit of the Directors was in force during the year and remained in force as of the date of this report.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2016, the interests or short positions of each of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

Name of Directors	Capacity	The Company (Long Position)			Hang Lung Properties Limited (Long Position)		
		Number of Shares	% of Number of Issued Shares	Number of Shares under Option (Note 1)	Number of Shares	% of Number of Issued Shares	Number of Shares under Option (Note 2)
Ronnie C. Chan	Personal	11,790,000	0.87	–	16,330,000	0.36	27,490,000
Philip N.L. Chen	Personal	–	–	–	–	–	21,500,000
Gerald L. Chan	–	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–	–
L.C. Tsui	–	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	–	100,000	–	–
George K.K. Chang	–	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	–	10,450,000
Adriel W. Chan	Personal & Other*	498,428,580	36.61	–	2,507,987,340	55.76	350,000

\* Other interests included 498,428,580 shares of the Company and 2,507,987,340 shares of HLPL held/deemed to be held by a trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.





Notes

1. Movement of Options under the Share Option Scheme of the Company

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option			Exercise Price per Share (HK\$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
		As at Jan 1, 2016	Exercised during the Year	As at Dec 31, 2016			
11/20/2006	Ronnie C. Chan	6,700,000	6,700,000	–	\$20.52	11/20/2007 : 10% 11/20/2008 : 20% 11/20/2009 : 30% 11/20/2010 : 40%	11/19/2016

2. Movement of Options under the Share Option Schemes of Hang Lung Properties Limited

(i) Share Option Scheme adopted on November 22, 2002

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option			Exercise Price per Share (HK\$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
		As at Jan 1, 2016	Exercised during the Year	As at Dec 31, 2016			
08/21/2007	Ronnie C. Chan	3,640,000	–	3,640,000	\$25.00	08/21/2008 : 10% 08/21/2009 : 20% 08/21/2010 : 30% 08/21/2011 : 40%	08/20/2017
08/21/2007	Ronnie C. Chan	5,600,000	–	5,600,000	\$25.00	08/21/2009 : 10% 08/21/2010 : 20% 08/21/2011 : 30% 08/21/2012 : 40%	08/20/2017
09/01/2008	H.C. Ho	300,000	–	300,000	\$24.20	09/01/2010 : 10% 09/01/2011 : 20% 09/01/2012 : 30% 09/01/2013 : 40%	08/31/2018
12/31/2008	H.C. Ho	300,000	–	300,000	\$17.36	12/31/2010 : 10% 12/31/2011 : 20% 12/31/2012 : 30% 12/31/2013 : 40%	12/30/2018
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	\$26.46	02/08/2012 : 10% 02/08/2013 : 20% 02/08/2014 : 30% 02/08/2015 : 40%	02/07/2020
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	\$33.05	07/29/2012 : 10% 07/29/2013 : 20% 07/29/2014 : 30% 07/29/2015 : 40%	07/28/2020
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	\$36.90	09/29/2012 : 10% 09/29/2013 : 20% 09/29/2014 : 30% 09/29/2015 : 40%	09/28/2020
06/13/2011	Ronnie C. Chan	4,500,000	–	4,500,000	\$30.79	06/13/2013 : 10%	06/12/2021
	Philip N.L. Chen	4,500,000	–	4,500,000		06/13/2014 : 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/13/2015 : 30% 06/13/2016 : 40%	

2. Movement of Options under the Share Option Schemes of Hang Lung Properties Limited (continued)

(ii) Share Option Scheme adopted on April 18, 2012

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option			Exercise Price per Share (HK\$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
		As at Jan 1, 2016	Exercised during the Year	As at Dec 31, 2016			
06/04/2013	Ronnie C. Chan	4,500,000	–	4,500,000	\$28.20	06/04/2015 : 10%	06/03/2023
	Philip N.L. Chen	4,500,000	–	4,500,000			
	H.C. Ho	3,000,000	–	3,000,000			
	Adriel W. Chan	200,000	–	200,000			
12/05/2014	Ronnie C. Chan	2,750,000	–	2,750,000	\$22.60	12/05/2016 : 10%	12/04/2024
	Philip N.L. Chen	2,500,000	–	2,500,000			
	H.C. Ho	1,850,000	–	1,850,000			
	Adriel W. Chan	150,000	–	150,000			

Save as disclosed above, none of the Directors had, as at December 31, 2016, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.





## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2016, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Note	Number of Shares or Underlying Shares Held		% of Number of Issued Shares	
		(Long Position)	(Short Position)	(Long Position)	(Short Position)
Chan Tan Ching Fen	1	498,428,580	–	36.61	–
Cole Enterprises Holdings (PTC) Limited	1	498,428,580	–	36.61	–
Merssion Limited	1	498,428,580	–	36.61	–
Adriel W. Chan	1	498,428,580	–	36.61	–
Kingswick Investment Limited	2	97,965,000	–	7.19	–
Aberdeen Asset Management Plc and its associates	3	231,259,867	–	16.98	–
Dodge & Cox	3	135,909,600	–	10.03	–

### Notes

1. These shares were the same parcel of shares held by Merssion Limited which was held under a trust. As Ms. Chan Tan Ching Fen was the founder, Cole Enterprises Holdings (PTC) Limited was the trustee and Mr. Adriel W. Chan was a discretionary beneficiary of the trust, they were deemed to be interested in such shares under the SFO.
2. This company was a wholly-owned subsidiary of Merssion Limited. Its interests were included in 498,428,580 shares held by Merssion Limited.
3. These shares were held in the capacity of investment managers.

Save as disclosed above, as at December 31, 2016, no other interest required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.



## RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in Note 26 to the Financial Statements. None of these related party transactions constitutes a discloseable connected transaction under the Listing Rules.

## MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 96 to 119.

## AUDITOR

The consolidated Financial Statements for the year ended December 31, 2016 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.

By Order of the Board

**Bella Peck Lim Chhoa**

*Company Secretary*

Hong Kong, January 26, 2017

