FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2015

in HK$ Million	Note	**2015**	2014
Revenue	3(a)	**8,948**	17,030
Direct costs and operating expenses		**(2,400)**	(4,022)
Gross profit		**6,548**	13,008
Other net loss	4	**(15)**	(2)
Administrative expenses		**(655)**	(644)
Operating profit before changes in fair value of investment properties		**5,878**	12,362
Net increase in fair value of investment properties	11	**631**	1,705
Operating profit after changes in fair value of investment properties		**6,509**	14,067
Interest income		**1,119**	924
Finance costs		**(1,041)**	(671)
Net interest income	5	**78**	253
Share of profits of joint ventures	12	**75**	75
Profit before taxation	3(a) & 6	**6,662**	14,395
Taxation	8(a)	**(1,117)**	(2,242)
Profit for the year		**5,545**	12,153
Attributable to:			
Shareholders	21	**5,092**	11,704
Non-controlling interests	22	**453**	449
		5,545	12,153
Earnings per share	10(a)		
Basic		**$1.13**	$2.61
Diluted		**$1.13**	$2.61

The accompanying notes form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the year are set out in note 9.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2015

in HK$ Million	Note	**2015**	2014
Profit for the year		**5,545**	12,153
Other comprehensive income	8(d)		
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of overseas subsidiaries		**(5,730)**	(794)
Total comprehensive income for the year		**(185)**	11,359
Total comprehensive income attributable to:			
Shareholders		**(282)**	10,929
Non-controlling interests		**97**	430
		(185)	11,359

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2015

in HK$ Million	Note	2015	2014
Non-current assets			
Property, plant and equipment			
Investment properties		129,425	120,137
Investment properties under development		16,709	25,611
Other property, plant and equipment		336	300
	11	146,470	146,048
Interest in joint ventures	12	1,241	1,205
Other assets	13	4	6
Deferred tax assets	19(b)	11	12
		147,726	147,271
Current assets			
Cash and deposits with banks	14	31,289	39,946
Trade and other receivables	15	1,173	1,916
Properties for sale	16	3,830	4,046
		36,292	45,908
Current liabilities			
Bank loans and other borrowings	17	4,693	5,657
Trade and other payables	18	6,806	7,906
Taxation payable	19(a)	501	1,581
		12,000	15,144
Net current assets		24,292	30,764
Total assets less current liabilities		172,018	178,035
Non-current liabilities			
Bank loans and other borrowings	17	28,078	29,441
Deferred tax liabilities	19(b)	9,048	9,591
		37,126	39,032
NET ASSETS		134,892	139,003
Capital and reserves			
Share capital	20	39,903	39,663
Reserves	21	89,086	92,664
Shareholders' equity		128,989	132,327
Non-controlling interests	22	5,903	6,676
TOTAL EQUITY		134,892	139,003

Philip N.L. Chen
Managing Director

H.C. Ho
Executive Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

in HK$ Million	Shareholders' equity: Share capital (Note 20)	Shareholders' equity: Other reserves (Note 21)	Shareholders' equity: Retained profits (Note 21)	Shareholders' equity: Total	Non-controlling interests (Note 22)	Total equity
At January 1, 2014	4,479	43,944	76,111	124,534	6,633	131,167
Transition to no-par value regime on March 3, 2014 (Note 20(a))	35,100	(35,100)	–	–	–	–
Profit for the year	–	–	11,704	11,704	449	12,153
Exchange difference arising from translation of overseas subsidiaries	–	(775)	–	(775)	(19)	(794)
Total comprehensive income for the year	–	(775)	11,704	10,929	430	11,359
Final dividends in respect of previous financial year	–	–	(2,601)	(2,601)	–	(2,601)
Interim dividends in respect of current financial year	–	–	(763)	(763)	–	(763)
Issue of shares	84	(13)	–	71	–	71
Employee share-based payments	–	95	62	157	–	157
Dividends paid to non-controlling interests	–	–	–	–	(387)	(387)
At December 31, 2014 and January 1, 2015	**39,663**	**8,151**	**84,513**	**132,327**	**6,676**	**139,003**
Profit for the year	**–**	**–**	**5,092**	**5,092**	**453**	**5,545**
Exchange difference arising from translation of overseas subsidiaries	**–**	**(5,374)**	**–**	**(5,374)**	**(356)**	**(5,730)**
Total comprehensive income for the year	**–**	**(5,374)**	**5,092**	**(282)**	**97**	**(185)**
Final dividends in respect of previous financial year	**–**	**–**	**(2,646)**	**(2,646)**	**–**	**(2,646)**
Interim dividends in respect of current financial year	**–**	**–**	**(765)**	**(765)**	**–**	**(765)**
Issue of shares	**240**	**(35)**	**–**	**205**	**–**	**205**
Employee share-based payments	**–**	**107**	**43**	**150**	**–**	**150**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(870)**	**(870)**
At December 31, 2015	**39,903**	**2,849**	**86,237**	**128,989**	**5,903**	**134,892**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2015

in HK$ Million	Note	2015		2014	
Operating activities					
Cash generated from operations	23	**7,613**		16,559	
Tax paid					
Hong Kong Profits Tax paid		**(1,467)**		(684)	
China Income Tax paid		**(686)**		(513)	
Net cash generated from operating activities			**5,460**		15,362
Investing activities					
Payment for property, plant and equipment		**(6,180)**		(5,301)	
Net sale proceeds from disposal of property, plant and equipment		**96**		5	
Interest received		**1,076**		908	
Dividends received from joint ventures		**39**		30	
Decrease in amount due to a joint venture		**–**		(88)	
Repayment of advances to unlisted investments		**2**		2	
(Increase)/Decrease in bank deposits with maturity greater than three months		**(4,367)**		498	
Net cash used in investing activities			**(9,334)**		(3,946)
Financing activities					
Proceeds from new bank loans and other borrowings		**3,854**		9,988	
Repayment of bank loans		**(5,682)**		(9,872)	
Proceeds from exercise of share options		**205**		71	
Interest and other borrowing costs paid		**(1,427)**		(1,138)	
Dividends paid		**(3,411)**		(3,364)	
Dividends paid to non-controlling interests		**(870)**		(387)	
Net cash used in financing activities			**(7,331)**		(4,702)
(Decrease)/Increase in cash and cash equivalents			**(11,205)**		6,714
Effect of foreign exchange rate changes			**(1,812)**		(588)
Cash and cash equivalents at January 1			**39,887**		33,761
Cash and cash equivalents at December 31	14		**26,870**		39,887

The accompanying notes form part of these financial statements.

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial adoption of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (note 32).

(b) Basis of preparation of the financial statements

The consolidated financial statements comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies set out below.

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

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

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 28.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the equity shareholders of the Company.

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (note 1(j)).

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Joint ventures

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

The Group's interests in joint ventures are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the joint ventures' net assets. The consolidated statement of profit or loss includes the Group's share of the post-acquisition, post-tax results of the joint ventures for the year, whereas the Group's share of the post-acquisition, post-tax items of the joint ventures' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

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

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

In the Company's statement of financial position, investments in joint ventures are stated at cost less impairment losses (note 1(j)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's share of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses and is tested regularly for impairment (note 1(j)).

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in profit or loss as a gain on a bargain purchase.

On disposal of an entity, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Properties

1. Investment properties and investment properties under development

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

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in profit or loss. Rental income from investment properties is accounted for as described in note 1(q).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(g).

2. Properties under development for sale

Properties under development for sale are classified under current assets and stated at the lower of cost and net realizable value. Costs include the acquisition cost of land, aggregate cost of development, borrowing costs capitalized (note 1(o)) and other direct expenses. Net realizable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

3. Completed properties for sale

Completed properties for sale are classified under current assets and stated at the lower of cost and net realizable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalized (note 1(o)), attributable to unsold properties. Net realizable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

(g) Other property, plant and equipment

1. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 1(j)). Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment (Continued)

2. Leased assets

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

(i) Classification of assets leased to the Group

The classification is determined based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease. Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and is accounted for as if held under a finance lease; and

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

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for as described in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment (Continued)

2. Leased assets (Continued)

(iii) Operating leases charges

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

(h) Depreciation

1. Investment properties

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

2. Other property, plant and equipment

Depreciation on other property, plant and equipment is calculated to write off the cost, less their estimated residual value, if any, on a straight line basis over their estimated useful lives as follows:

Buildings	50 years or unexpired lease term, whichever is shorter
Furniture and equipment	4–20 years
Motor vehicles	5 years

(i) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(j) Impairment of assets

An assessment is carried out at the end of each reporting period to determine whether there is objective evidence that a current or non-current asset, other than properties carried at revalued amounts, is impaired.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

If any such indication exists, any impairment loss is determined and recognized as follows:

– For current receivables carried at amortized cost, the impairment loss is recognized when there is objective evidence of impairment and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor. If in a subsequent period the amount of impairment loss decreases, the impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years.

  Impairment losses for receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

– For other non-current assets, the recoverable amount is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized as an expense in profit or loss whenever the carrying amount exceeds the recoverable amount. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized. An impairment loss in respect of goodwill is not reversed.

(k) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less impairment losses for bad and doubtful debts (note 1(j)), except where the receivables are interest-free loans or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (note 1(j)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Trade and other payables

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

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

(o) Borrowing costs

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

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

(p) Financial guarantees issued, provisions and contingent liabilities

1. Financial guarantees issued

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

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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Financial guarantees issued, provisions and contingent liabilities (Continued)

1. Financial guarantees issued (Continued)

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 1(p)(2) if and when (i) it becomes probable that the holder of guarantee will call upon the Company under the guarantee, and (ii) the amount of that claim on the Company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortization.

2. Other provisions and contingent liabilities

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

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

(q) Revenue recognition

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

1. Sale of properties

Revenue from sale of completed properties is recognized upon the later of the signing of sale and purchase agreements or the issue of occupation permit by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer.

2. Rental income

Rental income under operating leases is recognized on a straight line basis over the terms of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

3. Interest income

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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

4. Dividends

Dividends are recognized when the right to receive payment is established.

(r) Taxation

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profits, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

When investment properties and investment properties under development are carried at their fair value in accordance with the accounting policy set out in note 1(f)(1), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The financial statements of the Group are presented in Hong Kong dollars.

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

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

The results of foreign operations are translated in Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(t) Related parties

1. A person, or a close member of that person's family, is related to the Group if that person:
   - (i) has control or joint control over the Group;
   - (ii) has significant influence over the Group; or
   - (iii) is a member of the key management personnel of the Group or the Group's parent.
2. An entity is related to the Group if any of the following conditions applies:
   - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   - (iii) Both entities are joint ventures of the same third party.
   - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Related parties (Continued)

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

(vi) The entity is controlled or jointly controlled by a person identified in note 1(t)(1).

(vii) A person identified in note 1(t)(1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

(u) Segment reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations. For disclosure purpose, a reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics and nature of the regulatory environment, or single operating segments which are disclosable separately because they cannot be aggregated or they exceed quantitative thresholds.

(v) Employee benefits

1. Short term employee benefits and contributions to defined contribution retirement schemes

Salaries, annual bonuses, paid annual leave, the cost of non-monetary benefits and obligation for contributions to defined contribution retirement schemes, including those payables in mainland China and Hong Kong under relevant legislation, are accrued in the year in which the associated services are rendered by employees of the Group.

2. Share-based payments

The fair value of share options granted to employees is measured at grant date, taking into account the terms and conditions upon which the options were granted, and is expensed on a straight line basis over the vesting period taking into account the probability that the options will vest, with a corresponding increase in equity (employee share-based compensation reserve).

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the employee share-based compensation reserve).

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Employee benefits (Continued)

2. Share-based payments (Continued)

At the time when the share options are exercised, the related employee share-based compensation reserve is transferred to share capital, together with the exercise price. If the options expire or lapse after the vesting period, the related employee share-based compensation reserve is transferred directly to retained profits.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

3 REVENUE AND SEGMENT INFORMATION

The Group manages its businesses according to the nature of services and products provided. Management has determined three reportable operating segments for the measurement of performance and the allocation of resources. The segments are property leasing in Hong Kong and mainland China and property sales in Hong Kong.

Property leasing segment includes property leasing operation. The Group's investment properties portfolio, which mainly consists of retail, office, residential, serviced apartments and carparks are primarily located in Hong Kong and mainland China. Property sales segment includes development and sale of the Group's trading properties in Hong Kong.

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of investment properties are not included in segment profits. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

3 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Revenue and results by segments

	Revenue		Profit before taxation	
in HK$ Million	**2015**	2014	**2015**	2014
Segment				
Property leasing				
– Mainland China	**4,194**	3,916	**2,715**	2,800
– Hong Kong	**3,557**	3,300	**2,989**	2,789
	7,751	7,216	**5,704**	5,589
Property sales				
– Hong Kong	**1,197**	9,814	**844**	7,419
Segment total	**8,948**	17,030	**6,548**	13,008
Other net loss			**(15)**	(2)
Administrative expenses (Note)			**(655)**	(644)
Operating profit before changes in fair value of investment properties			**5,878**	12,362
Net increase in fair value of investment properties			**631**	1,705
– property leasing in Hong Kong			**897**	1,595
– property leasing in mainland China			**(266)**	110
Interest income			**1,119**	924
Finance costs			**(1,041)**	(671)
Net interest income			**78**	253
Share of profits of joint ventures			**75**	75
Profit before taxation			**6,662**	14,395

Note:

Administrative expenses included share-based payments of HK$150 million (2014: HK$157 million) representing the amortization of the fair value of options granted to employees over the vesting period and do not involve any cash outflow for the Group.

3 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Total assets by segments

	Total assets	
in HK$ Million	**2015**	2014
Segment		
Property leasing		
– Mainland China	**89,419**	90,161
– Hong Kong	**58,202**	56,818
	147,621	146,979
Property sales		
– Hong Kong	**3,852**	5,031
Segment total	**151,473**	152,010
Interest in joint ventures	**1,241**	1,205
Other assets	**4**	6
Deferred tax assets	**11**	12
Cash and deposits with banks	**31,289**	39,946
Total assets	**184,018**	193,179

4 OTHER NET LOSS

in HK$ Million	**2015**	2014
Gain on disposal of investment properties	**69**	3
Unrealized loss on remeasurement of derivative financial instruments (Note)	**(101)**	–
Net exchange gain/(loss)	**17**	(5)
	(15)	(2)

Note:

Derivative financial instruments represent cross currency swaps, which were entered into for the purpose of fixing the exchange rate for the Medium Term Note denominated in USD.

5 NET INTEREST INCOME

in HK$ Million	2015	2014
Interest income on bank deposits	**1,119**	924
Interest expenses on bank loans and other borrowings	**1,398**	1,337
Other borrowing costs	**87**	100
Total borrowing costs	**1,485**	1,437
Less: Borrowing costs capitalized (Note)	**(444)**	(766)
Finance costs	**1,041**	671
Net interest income	**78**	253

Note:

The borrowing costs have been capitalized at an average rate of 4.2% (2014: 3.8%) per annum for properties under development.

6 PROFIT BEFORE TAXATION

in HK$ Million	2015	2014
Profit before taxation is arrived at after charging:		
Cost of properties sold	**216**	1,802
Staff costs, including employee share-based payments of HK$150 million (2014: HK$157 million)	**1,323**	1,158
Depreciation	**51**	49
Auditors' remuneration		
– audit services	**8**	8
– non-audit services	**6**	5
and after crediting:		
Gross rental income from investment properties less direct outgoings of HK$2,047 million (2014: HK$1,627 million), including contingent rentals of HK$300 million (2014: HK$291 million)	**5,704**	5,589

7 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

The Nomination and Remuneration Committee consists of three Independent Non-Executive Directors. The Committee makes recommendation to the Board on the Independent Non-Executive Directors' remuneration packages and determines the remuneration package of individual Executive Directors. The emoluments of directors are determined by the scope of responsibility and accountability, and performance of individual Executive Directors, taking into consideration of the Company's performance and profitability, market practice and prevailing business conditions, etc.

(a) Directors' emoluments

Details of directors' emoluments are summarized below:

in HK$ Million Name	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Group's contributions to retirement scheme	**2015**	2014
Executive Directors						
Ronnie C. Chan	0.9	25.3	8.0	2.5	**36.7**	37.5
Philip N.L. Chen	0.7	23.8	8.0	1.4	**33.9**	34.5
H.C. Ho	0.7	4.8	3.6	0.4	**9.5**	10.1
Independent Non-Executive Directors						
Ronald J. Arculli	0.8	–	–	–	**0.8**	0.7
P.W. Liu	0.7	–	–	–	**0.7**	0.9
Dominic C.F. Ho	0.9	–	–	–	**0.9**	0.9
Nelson W.L. Yuen	0.7	–	–	–	**0.7**	0.7
Andrew K.C. Chan (Note (c)) (Appointed on October 20, 2014)	0.8	–	–	–	**0.8**	0.1
H.K. Chang (Appointed on April 17, 2015)	0.6	–	–	–	**0.6**	–
Anita Y.M. Fung (Appointed on May 5, 2015)	0.5	–	–	–	**0.5**	–
S.S. Yin (Resigned on April 29, 2015)	0.2	–	–	–	**0.2**	0.7
H.K. Cheng (Resigned on April 29, 2015)	0.3	–	–	–	**0.3**	0.9
Laura L.Y. Chen (Passed away on May 18, 2015)	0.3	–	–	–	**0.3**	0.9
2015	**8.1**	**53.9**	**19.6**	**4.3**	**85.9**	87.9
2014	8.1	51.5	24.5	3.8	87.9	

7 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2014: three) are existing directors of the Company and the emoluments in respect of the remaining two (2014: two) individuals are as follows:

in HK$ Million	**2015**	2014
Salaries, allowances and benefits in kind	**8.6**	8.0
Discretionary bonuses	**2.7**	2.7
Group's contributions to retirement scheme	**0.4**	0.3
	11.7	11.0

The emoluments of the above two (2014: two) individuals are within the following bands:

	Number of individuals	
	2015	2014
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**1**	–
HK$6,500,001 – HK$7,000,000	**1**	1
	2	2

(c) Dr. Andrew K.C. Chan was re-designated from Non-Executive Director to Independent Non-Executive Director on December 24, 2015.

(d) In addition to the above emoluments, certain directors of the Company were granted share options under the share option schemes of the Company and its ultimate holding company, Hang Lung Group Limited. Details of which are disclosed in note 25(b).

(e) During the years ended December 31, 2015 and 2014, there were no amounts paid to directors and senior executives above for compensation of loss of office and inducement for joining the Group.

8 TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

in HK$ Million	2015	2014
Current tax		
Hong Kong Profits Tax	459	1,498
Over-provision in prior years	(7)	(31)
	452	1,467
China Income Tax	674	679
	1,126	2,146
Deferred tax		
Change in fair value of investment properties	(67)	28
Other origination and reversal of temporary differences	58	68
Total (Note 19(b))	(9)	96
Total income tax expense	1,117	2,242

Provision for Hong Kong Profits Tax is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2014: 25%) and China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

(b) Share of joint ventures' taxation for the year ended December 31, 2015 of HK$12 million (2014: HK$10 million) is included in the share of profits of joint ventures.

(c) Reconciliation between actual tax expense and profit before taxation at applicable tax rates:

in HK$ Million	2015	2014
Profit before taxation	6,662	14,395
Tax on profit before taxation at applicable rates	1,293	2,596
Tax effect of non-taxable income	(243)	(346)
Tax effect of non-deductible expenses	75	54
Tax effect of tax losses utilized and other deductible temporary differences	(215)	(150)
Tax effect of unrecognized tax losses	214	119
Over-provision in prior years	(7)	(31)
Actual tax expense	1,117	2,242

(d) There is no tax effect relating to the component of the other comprehensive income for the year.

9 DIVIDENDS

(a) Dividends attributable to the year

in HK$ Million	**2015**	2014
Interim dividend declared and paid of HK17 cents (2014: HK17 cents) per share	**765**	763
Final dividend of HK58 cents (2014: HK59 cents) per share proposed after the end of the reporting period	**2,608**	2,646
	3,373	3,409

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

(b) The final dividend of HK$2,646 million (calculated based on HK59 cents per share and the total number of issued shares as at the dividend pay-out date) for the year ended December 31, 2014 was approved and paid in the year ended December 31, 2015 (2014: HK$2,601 million).

10 EARNINGS PER SHARE

(a) The calculation of basic and diluted earnings per share is based on the following data:

in HK$ Million	2015	2014
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	5,092	11,704

	Number of shares	
in Million	2015	2014
Weighted average number of shares used in calculating basic earnings per share	4,489	4,483
Effect of dilutive potential shares – share options	2	3
Weighted average number of shares used in calculating diluted earnings per share	4,491	4,486

(b) The underlying net profit attributable to shareholders which excluded changes in fair value of investment properties net of related deferred tax and non-controlling interests, is calculated as follows:

in HK$ Million	2015	2014
Net profit attributable to shareholders	5,092	11,704
Effect of changes in fair value of investment properties	(631)	(1,705)
Effect of corresponding deferred tax	(67)	28
Effect of changes in fair value of investment properties of joint ventures	(16)	(25)
	(714)	(1,702)
Non-controlling interests	9	20
	(705)	(1,682)
Underlying net profit attributable to shareholders	4,387	10,022

The earnings per share based on underlying net profit attributable to shareholders are:

	2015	2014
Basic	HK$0.98	HK$2.24
Diluted	HK$0.98	HK$2.23

11 PROPERTY, PLANT AND EQUIPMENT

in HK$ Million	Investment properties	Investment properties under development	Others	Total
Cost or valuation:				
At January 1, 2014	107,587	30,478	441	138,506
Exchange adjustment	(178)	(102)	(1)	(281)
Additions	394	5,866	62	6,322
Disposals	(2)	–	(4)	(6)
Increase in fair value	1,705	–	–	1,705
Transfer	10,631	(10,631)	–	–
At December 31, 2014 and January 1, 2015	120,137	25,611	498	146,246
Exchange adjustment	(3,988)	(1,257)	(12)	(5,257)
Additions	487	4,540	96	5,123
Disposals	(27)	–	(4)	(31)
Net increase in fair value	631	–	–	631
Transfer	12,185	(12,185)	–	–
At December 31, 2015	**129,425**	**16,709**	**578**	**146,712**
Accumulated depreciation:				
At January 1, 2014	–	–	152	152
Charge for the year	–	–	49	49
Written back on disposals	–	–	(3)	(3)
At December 31, 2014 and January 1, 2015	–	–	198	198
Exchange adjustment	–	–	(5)	(5)
Charge for the year	–	–	51	51
Written back on disposals	–	–	(2)	(2)
At December 31, 2015	**–**	**–**	**242**	**242**
Net book value:				
At December 31, 2015	**129,425**	**16,709**	**336**	**146,470**
At December 31, 2014	120,137	25,611	300	146,048
Cost or valuation of the property, plant and equipment is made up as follows:				
December 31, 2015				
Valuation	**129,425**	**16,709**	**–**	**146,134**
Cost	**–**	**–**	**578**	**578**
	129,425	**16,709**	**578**	**146,712**
December 31, 2014				
Valuation	120,137	25,611	–	145,748
Cost	–	–	498	498
	120,137	25,611	498	146,246

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

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

	Fair Value measurement at December 31, 2015		
in HK$ Million	Level 1	Level 2	Level 3
Investment properties	**–**	**129,425**	**–**
Investment properties under development	**–**	**–**	**16,709**

	Fair Value measurement at December 31, 2014		
in HK$ Million	Level 1	Level 2	Level 3
Investment properties	–	120,137	–
Investment properties under development	–	–	25,611

The Group's policy is to recognize transfers between levels of fair value hierarchy at the time at which they occur. During the year, except for the transfer from investment properties under development to investment properties of HK$12,185 million upon opening of Dalian Olympia 66 mall and Shenyang Forum 66 office tower in mainland China (2014: transfer from investment properties under development to investment properties of HK$10,631 million upon opening of Tianjin Riverside 66 mall and Wuxi Center 66 office tower), there were no other transfers between levels of fair value hierarchy.

The investment properties and investment properties under development of the Group were revalued as at December 31, 2015 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis. Management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Fair value measurement of properties (Continued)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of investment properties is determined by using income capitalization approach with reference to current market rents and capitalization rates using market data.

(iii) Information about Level 3 fair value measurements

The fair value of investment properties under development in mainland China is determined by using direct comparison approach, with reference to comparable market transactions as available in the market to derive the fair value of the property assuming it was completed and, where appropriate, after deducting the following items:

– Estimated development costs to be expended to complete the properties that would be incurred by a market participant; and

– Estimated profit margin that a market participant would require to hold and develop the property to completion.

The higher the estimated development costs or profit margin, the lower the fair value of investment properties under construction.

The main Level 3 unobservable inputs used by the Group are as follows:

The total estimated development costs of the Group's investment properties under development ranged from HK$3.7 billion to HK$17.8 billion (2014: HK$3.9 billion to HK$22.0 billion). The estimates are largely consistent with the budgets developed internally by the Group based on management experience and knowledge of market conditions.

The movements during the year in the balances of these Level 3 fair value measurements are as follows:

	Investment properties under development – China	
in HK$ Million	**2015**	2014
At January 1	**25,611**	30,478
Exchange adjustment	**(1,257)**	(102)
Additions	**4,540**	5,866
Increase in fair value	**–**	–
Transfer to Level 2	**(12,185)**	(10,631)
At December 31	**16,709**	25,611
Total gains for the year included in profit or loss	**–**	–

Fair value adjustments of investment properties and investment properties under development is recognized in "Net increase in fair value of investment properties" in the consolidated statement of profit or loss.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

in HK$ Million	Investment properties 2015	Investment properties 2014	Investment properties under development 2015	Investment properties under development 2014
Long term leases in Hong Kong	**38,124**	37,033	**–**	–
Long term leases outside Hong Kong	**–**	–	**824**	849
Medium term leases in Hong Kong	**19,463**	19,376	**–**	–
Medium term leases outside Hong Kong	**71,838**	63,728	**15,885**	24,762
	129,425	120,137	**16,709**	25,611

(c) The net book value of other property, plant and equipment of the Group included long term leases of HK$14 million (2014: HK$14 million) in respect of land and building held in Hong Kong, medium term leases of HK$6 million (2014: HK$7 million) and long term leases of HK$41 million (2014: HK$46 million) in respect of land and buildings held outside Hong Kong respectively.

Property leasing revenue includes gross rental income from investment properties of HK$7,751 million (2014: HK$7,216 million).

(d) The Group leases out its properties under operating leases. Leases typically run for an initial period of two to five years, with some having the option to renew, at which time all terms are renegotiated. Long term leases contain rent review or adjustment clauses and the Group has a regular proportion of its leases up for renewal each year. Certain leases include contingent rentals calculated with reference to the revenue of tenants.

At the end of the reporting period, the Group's total future minimum lease income under non-cancellable operating leases in respect of investment properties were as follows:

in HK$ Million	2015	2014
Within 1 year	**5,604**	5,671
After 1 year but within 5 years	**6,885**	6,990
After 5 years	**823**	1,059
	13,312	13,720

12 INTEREST IN JOINT VENTURES

in HK$ Million	**2015**	2014
Share of net assets – unlisted shares	**1,241**	1,205

Details of joint ventures are set out in note 35. The aggregate financial information related to the Group's share of joint ventures that are not individually material are as follows:

in HK$ Million	**2015**	2014
Non-current assets	**1,233**	1,215
Current assets	**45**	22
Non-current liabilities	**(7)**	(7)
Current liabilities	**(30)**	(25)
Net assets	**1,241**	1,205

in HK$ Million	**2015**	2014
Revenue	**81**	76
Profit and total comprehensive income for the year	**75**	75

13 OTHER ASSETS

in HK$ Million	**2015**	2014
Advances to unlisted investee companies	**4**	6

14 CASH AND DEPOSITS WITH BANKS

in HK$ Million	2015	2014
Time deposits	**29,766**	37,380
Cash at banks	**1,523**	2,566
Cash and deposits with banks in the consolidated statement of financial position	**31,289**	39,946
Less: Bank deposits with maturity greater than three months	**(4,419)**	(59)
Cash and cash equivalents in the consolidated cash flow statement	**26,870**	39,887

At the end of the reporting period, the Group's cash and deposits with banks were interest-bearing at an average rate of 3.2% (2014: 2.4%) per annum with currencies denominated in:

in HK$ Million	2015	2014
Hong Kong Dollars equivalent of:		
Renminbi	**30,102**	35,515
Hong Kong Dollars	**1,181**	4,425
United States Dollars	**6**	6
	31,289	39,946

The Group holds Renminbi bank deposits to meet its ongoing payment obligations in relation to its development projects in mainland China.

After deducting cash and deposits from bank loans and other borrowings, the net debt position (2014: net cash position) of the Group at the end of the reporting period was as follows:

in HK$ Million	2015	2014
Bank loans and other borrowings (Note 17)	**32,771**	35,098
Less: Cash and deposits	**(31,289)**	(39,946)
Net Debt/(Net Cash)	**1,482**	(4,848)

15 TRADE AND OTHER RECEIVABLES

(a) Included in trade and other receivables are trade receivables (based on the due date) with the following terms:

in HK$ Million	2015	2014
Current and within 1 month	41	1,007
1 – 3 months	8	7
Over 3 months	4	8
	53	1,022

The balance of bad and doubtful debts is insignificant. The details on the Group's credit policy are set out in note 27(c).

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of HK$298 million (2014: HK$317 million).

16 PROPERTIES FOR SALE

in HK$ Million	2015	2014
Completed properties for sale located in Hong Kong – long term leases	1,810	1,810
Completed properties for sale located in Hong Kong – medium term leases	2,020	2,236
	3,830	4,046

17 BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, bank loans and other borrowings were unsecured and repayable as follows:

in HK$ Million	2015	2014
Bank loans (Note (a))		
Within 1 year or on demand	**4,696**	5,657
After 1 year but within 2 years	**1,873**	4,249
After 2 years but within 5 years	**11,433**	8,449
Over 5 years	**2,264**	4,296
	20,266	22,651
Other borrowings (Note (b))		
After 2 years but within 5 years	**810**	375
Over 5 years	**11,929**	12,368
	12,739	12,743
	33,005	35,394
Less: unamortized front end fees	**(234)**	(296)
Total bank loans and other borrowings	**32,771**	35,098
Amount due within 1 year included under current liabilities	**(4,693)**	(5,657)
	28,078	29,441

Notes:

(a) All bank loans are interest-bearing at rates ranging from 0.8% to 7.1% (2014: 0.8% to 7.1%) per annum during the year.

Certain of the Group's borrowings are attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels. During the year, all these covenants have been complied with by the Group.

At December 31, 2015, the Group had HK$11,715 million (2014: HK$18,139 million) committed undrawn banking facilities.

(b) A wholly-owned subsidiary of the Company has a US$3 billion (2014: US$3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the bonds have been issued with coupon rates ranged from 2.95% to 4.75% (2014: 2.95% to 4.75%) per annum under the Program.

18 TRADE AND OTHER PAYABLES

in HK$ Million	2015	2014
Creditors and accrued expenses (Note (a))	4,717	6,002
Deposits received (Note (b))	2,089	1,904
	6,806	7,906

Notes:

(a) Creditors and accrued expenses include retention money payable of HK$533 million (2014: HK$545 million) which is not expected to be settled within one year.

(b) Deposits received of HK$1,266 million (2014: HK$1,103 million) are not expected to be settled within one year.

Included in trade and other payables are trade creditors with the following aging analysis:

in HK$ Million	2015	2014
Due within 1 month	2,094	4,297
Due after 3 months	582	565
	2,676	4,862

19 TAXATION IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation

in HK$ Million	2015	2014
Provision for Hong Kong Profits Tax	157	1,145
Provision for China Income Tax	339	403
Hong Kong Profits Tax payable relating to prior years	5	33
	501	1,581

(b) Deferred taxation

in HK$ Million	2015	2014
Deferred tax liabilities	9,048	9,591
Deferred tax assets	(11)	(12)
Net deferred tax liabilities	9,037	9,579

19 TAXATION IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred taxation (Continued)

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

in HK$ Million Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Revaluation of properties	Future benefit of tax losses	Others	Total
At January 1, 2014	1,245	8,123	–	149	9,517
Credited to exchange reserve	(7)	(27)	–	–	(34)
Charged/(Credited) to profit or loss (Note 8(a))	89	28	(2)	(19)	96
At December 31, 2014 and January 1, 2015	1,327	8,124	(2)	130	9,579
Credited to exchange reserve	(57)	(475)	–	(1)	(533)
Charged/(Credited) to profit or loss (Note 8(a))	90	(67)	–	(32)	(9)
At December 31, 2015	**1,360**	**7,582**	**(2)**	**97**	**9,037**

Included in "Others" is mainly deferred tax liabilities recognized in respect of undistributed profits of foreign investment enterprises in mainland China.

(c) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of HK$2,817 million (2014: HK$2,191 million) sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilized is not probable at December 31, 2015. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in mainland China expire five years after the relevant accounting year end date.

20 SHARE CAPITAL

Movements of the Company's ordinary shares are set out below:

	2015		2014	
	Number of shares (million)	**Amount of share capital (HK$million)**	Number of shares (million)	Amount of share capital (HK$million)
Ordinary shares, issued and fully paid:				
At January 1	**4,485**	**39,663**	4,479	4,479
Shares issued under share option scheme	**12**	**240**	6	84
Transition to no-par value regime on March 3, 2014 (Note (a))	**–**	**–**	–	35,100
At December 31	**4,497**	**39,903**	4,485	39,663

Note (a):

The transition to the no-par value regime under the Hong Kong Companies Ordinance occurred automatically on March 3, 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the Ordinance.

21 RESERVES

(a) The Group

in HK$ Million	Other reserves: Share premium	Capital redemption reserve	Exchange reserve	Employee share-based compensation reserve	Total	Retained profits	Total reserves
At January 1, 2014	33,031	2,066	8,265	582	43,944	76,111	120,055
Transition to no-par value regime on March 3, 2014 (Note 20(a))	(33,034)	(2,066)	–	–	(35,100)	–	(35,100)
Profit for the year	–	–	–	–	–	11,704	11,704
Exchange difference arising from translation of overseas subsidiaries	–	–	(775)	–	(775)	–	(775)
Total comprehensive income for the year	–	–	(775)	–	(775)	11,704	10,929
Final dividends in respect of previous financial year	–	–	–	–	–	(2,601)	(2,601)
Interim dividends in respect of current financial year	–	–	–	–	–	(763)	(763)
Issue of shares	3	–	–	(16)	(13)	–	(13)
Employee share-based payments	–	–	–	95	95	62	157
At December 31, 2014 and January 1, 2015	–	–	7,490	661	8,151	84,513	92,664
Profit for the year	–	–	–	–	–	5,092	5,092
Exchange difference arising from translation of overseas subsidiaries	–	–	(5,374)	–	(5,374)	–	(5,374)
Total comprehensive income for the year	–	–	(5,374)	–	(5,374)	5,092	(282)
Final dividends in respect of previous financial year	–	–	–	–	–	(2,646)	(2,646)
Interim dividends in respect of current financial year	–	–	–	–	–	(765)	(765)
Issue of shares	–	–	–	(35)	(35)	–	(35)
Employee share-based payments	–	–	–	107	107	43	150
At December 31, 2015	**–**	**–**	**2,116**	**733**	**2,849**	**86,237**	**89,086**

21 RESERVES (Continued)

(a) The Group (Continued)

The retained profits for the Group at December 31, 2015 included HK$690 million (2014: HK$519 million) in respect of statutory reserves of the subsidiaries in mainland China.

The exchange reserve of the Group comprises the exchange differences arising from the translation of the financial statements of the Group's entities in and relating to mainland China.

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as explained in note 1(v).

(b) The Company

	Other reserves					
in HK$ Million	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Total	Retained profits	Total reserves
At January 1, 2014	33,031	2,066	582	35,679	3,311	38,990
Transition to no-par value regime on March 3, 2014 (Note 20(a))	(33,034)	(2,066)	–	(35,100)	–	(35,100)
Profit and total comprehensive income for the year	–	–	–	–	7,207	7,207
Final dividends in respect of previous financial year	–	–	–	–	(2,601)	(2,601)
Interim dividends in respect of current financial year	–	–	–	–	(763)	(763)
Issue of shares	3	–	(16)	(13)	–	(13)
Employee share-based payments	–	–	95	95	62	157
At December 31, 2014 and January 1, 2015	–	–	661	661	7,216	7,877
Profit and total comprehensive income for the year	–	–	–	–	10,098	10,098
Final dividends in respect of previous financial year	–	–	–	–	(2,646)	(2,646)
Interim dividends in respect of current financial year	–	–	–	–	(765)	(765)
Issue of shares	–	–	(35)	(35)	–	(35)
Employee share-based payments	–	–	107	107	43	150
At December 31, 2015	**–**	**–**	**733**	**733**	**13,946**	**14,679**

The aggregate amount of the Company's reserves available for distribution to equity shareholders of the Company at December 31, 2015 was HK$13,946 million (2014: HK$7,216 million).

21 RESERVES (Continued)

Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in the Group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its leveraging ratio (net debt to equity and debt to equity) and cash flow requirements, taking into account its future financial obligations and commitments. Net debt represents bank loans and other borrowings less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

The Group has a net debt position as at December 31, 2015 (Note 14). Net debt to equity ratio and debt to equity ratio as at December 31, 2015 were 1.1% (2014: N/A) and 24.3% (2014: 25.2%), respectively. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

22 NON-CONTROLLING INTERESTS

Non-controlling interests represent the equity interests and the share of profit or loss attributable to other shareholders in respect of the subsidiaries not wholly-owned by the Group as at December 31. Details of movement of non-controlling interests are set out in the consolidated statement of changes in equity.

23 CASH GENERATED FROM OPERATIONS

in HK$ Million	2015	2014
Profit before taxation	**6,662**	14,395
Adjustments for:		
Gain on disposal of investment properties	**(69)**	(3)
Loss on remeasurement of derivative financial instruments	**101**	–
Bank interest income	**(1,119)**	(924)
Finance costs	**1,041**	671
Depreciation	**51**	49
Loss on disposal of other property, plant and equipment	**2**	1
Net increase in fair value of investment properties	**(631)**	(1,705)
Share of profits of joint ventures	**(75)**	(75)
Employee share-based payments	**150**	157
Decrease in properties for sale	**170**	1,689
Decrease in trade and other receivables	**746**	963
Increase in creditors and accrued expenses	**330**	1,192
Increase in deposits received	**254**	149
Cash generated from operations	**7,613**	16,559

24 COMMITMENTS

At the end of the reporting period, capital commitments not provided for in the financial statements were as follows:

in HK$ Million	2015	2014
Contracted for	**1,539**	3,445
Authorized but not contracted for	**37,850**	43,132
	39,389	46,577

The above commitments include mainly the land costs and construction related costs to be incurred in respect of the Group's development of its investment properties in various cities in mainland China.

25 EMPLOYEE BENEFITS

(a) Retirement benefits

The Group operates a defined contribution provident fund scheme for its employees. The assets of the scheme are held separately from those of the Group by an independent corporate trustee and managed by professional fund managers.

Contributions are made by both the employer and the employees at a certain percentage of employees' basic salaries, the percentage varying with their length of service. When an employee leaves the scheme prior to his or her interest in the Group's contributions being fully vested, forfeited contributions are refunded to the Group in 2015 (2014: the forfeited contributions were credited to the reserves of the fund). Total contributions made by the Group for the year amounted to HK$26 million (2014: HK$23 million) and forfeited sums refunded to the Group amounted to HK$1 million (2014: forfeited sums were credited to the reserves amounted to HK$2 million).

A master trust Mandatory Provident Fund Scheme (the "MPF Scheme") is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of HK$30,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. Total MPF contributions made by the Group for the year amounted to HK$6 million (2014: HK$5 million).

As the Group's provident fund scheme is an MPF Exempted Occupational Retirement Scheme (the "ORSO Scheme"), eligibility for membership of the ORSO and MPF schemes is identical. New employees are offered a one-off option to join either the ORSO or the MPF scheme.

Staff in the Company's subsidiaries operating in mainland China are members of a retirement benefits scheme (the "Mainland RB Scheme") operated by the local municipal government in mainland China. The only obligation of the subsidiaries in mainland China is to contribute a certain percentage of their payroll to Mainland RB Scheme to fund the retirement benefits. The local municipal government in mainland China undertakes to assume the retirement benefits obligations of all existing and future retired employees of subsidiaries in mainland China. Total contributions made by subsidiaries in mainland China for the year amounted to HK$49 million (2014: HK$40 million).

(b) Equity compensation benefits

The share option scheme adopted by the Company on November 22, 2002 (the "2002 Share Option Scheme") was terminated upon the adoption of a new share option scheme on April 18, 2012 (the "2012 Share Option Scheme", together with the 2002 Share Option Scheme are referred to as the "Schemes"). No further options shall be offered under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid. The 2012 Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and expiring on the tenth anniversary thereof.

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

The purposes of the Schemes are to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group, to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Under the Schemes, the board of directors of the Company (the "Board") is authorized to grant options to selected participants, including employees and directors of any company in the Group, subject to the terms and conditions such as performance targets as the Board may specify on a case-by-case basis or generally. The exercise price of the options is determined by the Board at the time of grant, and shall not be less than the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The period open for acceptance of the option and amount payable thereon, the vesting period, the exercisable period and the number of shares subject to each option are determined by the Board at the time of grant.

As at the date of this report, the total number of shares available for issue under the 2012 Share Option Scheme is 273,914,253 shares, representing 6.09% of the total number of issued shares of the Company. The total number of shares issued and to be issued upon exercise of options (including both exercised and outstanding) granted to each participant in any 12-month period shall not exceed 1% of shares of the Company in issue.

The movements of share options during the year are as follows:

(i) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2015	Exercised	Forfeited/ Lapsed	**Outstanding on December 31, 2015**	Period during which options are exercisable	Exercise price (HK$)
November 14, 2006 to March 19, 2007	4,125,000	(2,400,000)	–	**1,725,000**	November 14, 2007 to March 18, 2017	16.75 – 22.55
August 21, 2007 to December 31, 2008	40,268,000	(9,466,000)	(80,000)	**30,722,000**	August 21, 2008 to December 30, 2018	17.36 – 27.90
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	33,840,000	–	(1,822,000)	**32,018,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	91,613,000	(11,866,000)	(1,902,000)	**77,845,000**		

All the above options may vest after one/two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were granted or cancelled during the year.

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

(i) 2002 Share Option Scheme (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2015		2014	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**25.77**	**91,613,000**	24.91	101,091,000
Exercised	**17.30**	**(11,866,000)**	11.09	(6,414,000)
Cancelled	**–**	**–**	–	–
Forfeited/Lapsed	**32.08**	**(1,902,000)**	28.27	(3,064,000)
Outstanding at December 31	**26.90**	**77,845,000**	25.77	91,613,000
Exercisable at December 31	**26.46**	**69,837,800**	23.98	66,443,000

The closing price of the shares immediately before the date of exercise by the director during the year was HK$17.42. The weighted average closing price of the shares immediately before the dates of exercise by the employees during the year was HK$21.44.

The weighted average closing share price at the dates of exercise for share options during the year was HK$17.23.

The weighted average remaining contractual life of options outstanding at the end of the reporting period was 3.7 years (2014: 4.6 years).

25 EMPLOYEE BENEFITS (Continued)

(b) Equity compensation benefits (Continued)

(ii) 2012 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2015	Exercised	Forfeited/ Lapsed	**Outstanding on December 31, 2015**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	33,550,000	–	(1,970,000)	**31,580,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	32,470,000	–	(2,120,000)	**30,350,000**	December 5, 2016 to December 4, 2024	22.60
Total	66,020,000	–	(4,090,000)	**61,930,000**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were granted and cancelled during the year.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2015		2014	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**25.45**	**66,020,000**	28.20	38,620,000
Granted	**–**	**–**	22.60	32,630,000
Forfeited/Lapsed	**25.30**	**(4,090,000)**	28.03	(5,230,000)
Outstanding at December 31	**25.46**	**61,930,000**	25.45	66,020,000
Exercisable at December 31	**28.20**	**3,158,000**	–	–

The weighted average remaining contractual life of options outstanding at the end of the reporting period was 8.1 years (2014: 9.1 years).

(iii) In respect of share options granted to the directors, the related charge recognized for the year ended December 31, 2015, estimated in accordance with the Group's accounting policy in note 1(v)(2) was as follows:

(1) Mr. Ronnie C. Chan, HK$16.6 million (2014: HK$21.1 million);

(2) Mr. Philip N.L. Chen, HK$20.4 million (2014: HK$28.9 million);

(3) Mr. H.C. Ho, HK$12.2 million (2014: HK$14.3 million); and

(4) Mr. Nelson W.L. Yuen, HK$0.4 million (2014: HK$4.3 million).

(iv) The valuation of share options was estimated at the date of grant using a Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted.

26 RELATED PARTY TRANSACTIONS

Except for the transactions and balances already disclosed elsewhere in the financial statements, the Group entered into the following related party transactions during the year in its ordinary course of business:

(a) Emoluments to directors and key management has been disclosed in notes 7 and 25(b).

(b) During the year ended December 31, 2014, a director and a connected person of the Group entered into the sale and purchase agreements to acquire four residential units and six car parking spaces of the Group's residential development, The HarbourSide, at a total consideration of $240 million by way of public tender. The balance of the purchase price at December 31, 2014 of $216 million was settled in January 2015. This constituted connected transactions as defined in Chapter 14A of the Listing Rules. Details of the connected transactions were set out in the joint announcement of the Company and Hang Lung Group Limited dated November 25, 2014.

Except for the related party transaction disclosed in note (b) above, none of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to interest rate, liquidity, credit and currency risks arises in the normal course of the Group's business. The Group has policies and practices approved by management as described below in managing these risks.

(a) Interest rate risk

The Group's interest rate risk arises primarily from deposits with banks and floating rate bank borrowings. Interest rate trends and movements are closely monitored and, if appropriate, existing borrowings will be replaced with new bank facilities when favorable pricing opportunities arise. In addition, the Group maintains the Medium Term Note Program which facilitates the Group to mitigate future interest rate volatility and re-financing risks.

The interest rates of interest-bearing financial assets and liabilities are disclosed in notes 14 and 17.

Based on the simulations performed at year end in relation to the Group's bank deposits and borrowings, it was estimated that the impact of a 100 basis-point increase in market interest rates from the rates applicable at the year end date, with all other variables held constant, would increase the Group's profit after taxation and total equity by approximately HK$117 million (2014: HK$182 million).

This analysis is based on a hypothetical situation, as in practice market interest rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

– changes in market interest rates affect the interest income and interest expenses of floating rate financial instruments and bank borrowings; and

– all other financial assets and liabilities are held constant.

The analysis was performed on the same basis for 2014.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk

The Group manages its surplus cash centrally and the liquidity risk of the Company and its subsidiaries at the corporate level. The objective is to ensure that an adequate amount of cash and committed bank facilities are available to meet all funding requirements. Significant flexibility is achieved through diverse sources of committed credit lines for capturing future expansion opportunities.

		Contractual undiscounted cash flow				
in HK$ Million	Carrying amount	Total	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans and other borrowings	32,771	39,447	5,948	3,054	15,169	15,276
Trade and other payables	6,806	6,806	5,007	1,022	579	198
At December 31, 2015	**39,577**	**46,253**	**10,955**	**4,076**	**15,748**	**15,474**

		Contractual undiscounted cash flow				
in HK$ Million	Carrying amount	Total	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans and other borrowings	35,098	42,772	6,942	5,428	12,012	18,390
Trade and other payables	7,906	7,906	6,258	973	516	159
At December 31, 2014	43,004	50,678	13,200	6,401	12,528	18,549

(c) Credit risk

The Group's credit risk is primarily attributable to trade receivables with tenants and deposits held with reputable banks and financial institutions.

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. Proceeds from property sales are receivable pursuant to the terms of the sale and purchase agreements. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Except for sale of properties developed by the Group, it does not hold any collateral over the receivables. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

Surplus cash is placed with reputable banks and financial institutions in accordance with pre-determined limits based on credit ratings and other factors to minimize concentration risk.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

The Group does not provide any other guarantee which would expose the Group to material credit risk.

There are no significant concentrations of credit risk within the Group.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(d) Currency risk

Currency risk arises from assets and liabilities denominated in a currency other than the functional currency of the Group's entities to which they related. The Group maintains certain bank deposits denominated in United States dollars amounting to US$1 million (2014: US$1 million) and bonds amounting to US$1,000 million (2014: US$1,000 million). Given that Hong Kong dollar is pegged to United States dollar, the resulting currency risk on such deposits and bonds is considered relatively limited. The currency risk arising from the USD denominated bond is also hedged by the cross currency swaps entered into by the Group during the year.

The Group engages in property development and investments in mainland China through its local subsidiaries whose net assets are exposed to currency risk. In addition, the Group has Renminbi deposits of RMB 25,428 million (2014: RMB 28,333 million), for which there are currency risks but which are held to meet its ongoing Renminbi payment obligations in relation to its development projects in mainland China. Where appropriate, the Group seeks to minimize its exposure to currency risk in mainland China through borrowings denominated in Renminbi.

Management estimated that a 5% (2014: 1%) appreciation/depreciation of Renminbi against Hong Kong dollar would increase/decrease the Group's equity attributable to shareholders by HK$4,319 million (2014: HK$891 million).

The above analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2014.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Fair value

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

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

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

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

(i) Financial assets and liabilities carried at fair value

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement of fair value is recognized immediately in the consolidated statement of profit or loss.

The fair value of cross currency swaps as at December 31, 2015 of HK$101 million (December 31, 2014: Nil) (recorded under "Trade and other payables") in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

During the year, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3.

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

The fair values of unlisted investments, trade and other receivables, trade and other payables, cash and deposits with banks, bank loans and other borrowings are considered approximate to their carrying amounts at the end of the reporting period.

28 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

Notes 11(a), 25(b) and 27(e) contain information about the assumptions and their risk relating to valuation of investment properties and investment properties under development, fair value of share options granted and derivative financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Properties held for sale

The Group determines the net realizable value of unsold properties based on estimation of future selling price less costs to be incurred in relation to the sale, with reference to the prevailing market data and market survey reports available from independent property valuers.

(b) Impairment of assets

The Group tests regularly whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is determined using fair value less costs to sell or value-in-use calculations as appropriate. These calculations require the use of estimates.

(c) Income taxes

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and judgment is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(d) Recognition of deferred tax assets

The amount of the deferred tax assets included in the consolidated statement of financial position of the Group is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences and unused tax losses can be utilized. The recognition of deferred tax assets requires the Group to make judgments based on the assessment of future financial performance, the amount of future taxable profits and the timing of when these will be realized.

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

At December 31, 2015

in HK$ Million	Note	2015	2014
Non-current asset			
Interest in subsidiaries	30	**74,750**	68,411
Current assets			
Cash and deposits with banks		**2**	3
Trade and other receivables		**3**	4
		5	7
Current liability			
Trade and other payables		**17**	17
Net current liabilities		**(12)**	(10)
Total assets less current liabilities		**74,738**	68,401
Non-current liability			
Amounts due to subsidiaries	30(c)	**20,156**	20,861
NET ASSETS		**54,582**	47,540
Capital and reserves			
Share capital	20	**39,903**	39,663
Reserves	21	**14,679**	7,877
TOTAL EQUITY		**54,582**	47,540

Philip N.L. Chen
Managing Director

H.C. Ho
Executive Director

30 INTEREST IN SUBSIDIARIES

in HK$ Million	2015	2014
Unlisted shares, at cost	8	8
Amounts due from subsidiaries	74,742	68,403
	74,750	68,411

(a) Details of principal subsidiaries are set out in note 34.

(b) Amounts due from subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current assets as they are not expected to be recoverable within the next twelve months.

(c) Amounts due to subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current liabilities as they are not expected to be repaid within the next twelve months.

31 ULTIMATE HOLDING COMPANY

The ultimate holding company is Hang Lung Group Limited, a company incorporated in Hong Kong.

32 FUTURE CHANGES IN ACCOUNTING POLICIES

The Group has not early applied the following amendments and new standards which have been issued by the HKICPA but are not yet effective for the year ended December 31, 2015. The adoption of the following amendments or standards will not result in substantial changes to the Group's accounting policies.

		Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs	2012-2014 Cycle	January 1, 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortization	January 1, 2016
HKFRS 15	Revenue from contracts with customers	January 1, 2018
HKFRS 9	Financial Instruments	January 1, 2018

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on January 28, 2016.

34 PRINCIPAL SUBSIDIARIES

At December 31, 2015

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Antonis Limited*	10,000	100	100	Property leasing	Hong Kong
AP City Limited	2	100	–	Property leasing	Hong Kong
AP Joy Limited	2	100	–	Property development & leasing	Hong Kong
AP Properties Limited				Property development & leasing	Hong Kong
‘A’ shares	34	100	–		
‘B’ shares	6	100	–		
AP Star Limited*	2	100	–	Investment holding	Hong Kong
AP Success Limited	2	100	–	Property leasing	Hong Kong
AP Universal Limited*	2	100	–	Property leasing	Hong Kong
AP Win Limited*	1,000,000	100	–	Property leasing	Hong Kong
AP World Limited	2	100	100	Property development	Hong Kong
Bonna Estates Company Limited	1,000,000	100	100	Property leasing	Hong Kong
Caddo Enterprises, Limited*	4,000,000	100	–	Property leasing	Hong Kong
Cititop Limited	2	100	–	Property development & leasing	Hong Kong
Country Bond Development Limited				Investment holding	Hong Kong
‘A’ shares	990	79.8	–		
‘B’ share	1	100	–		
Dokay Limited*	2	100	–	Property leasing	Hong Kong
Easegood Enterprises Limited	2	100	–	Investment holding	Hong Kong
Fu Yik Company Limited*	3	100	–	Property leasing	Hong Kong
Gala Ruby Limited*	2	100	100	Investment holding	Hong Kong
Gowily Limited	2	100	–	Property leasing	Hong Kong
Grand Centre Limited	4	100	–	Property leasing	Hong Kong
Grand Hotel Group Limited	10,200	100	–	Apartment operating & management	Hong Kong

34 PRINCIPAL SUBSIDIARIES (Continued)

At December 31, 2015

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Grand Hotel Holdings Limited				Investment holding	Hong Kong
'A' shares	62,163,123	100	–		
'B' shares	6,000,000	100	–		
Hang Chui Company Limited	2	100	–	Property leasing	Hong Kong
Hang Far Company Limited*	2	100	–	Investment holding	Hong Kong
Hang Fine Company Limited	200	100	–	Property leasing	Hong Kong
Hang Kwok Company Limited*	10,000	100	–	Property leasing	Hong Kong
Hang Lung (Administration) Limited	10,000	100	100	Management services	Hong Kong
Hang Lung (Dalian) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Jiangsu) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Jinan) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Kunming) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Liaoning) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Shenyang) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Tianjin) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Wuhan) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Wuxi) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung Park-In Limited	2	100	–	Property leasing	Hong Kong
Hang Lung Project Management Limited*	10,000	100	100	Project management	Hong Kong
Hang Lung Property Management Limited*	100,000	100	–	Property management	Hong Kong
Hang Lung Real Estate Agency Limited*	2	100	100	Property agencies	Hong Kong
HLP (China) Administrative Limited	1	100	–	Management services	Hong Kong

34 PRINCIPAL SUBSIDIARIES (Continued)

At December 31, 2015

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
HLP (China) Limited	2	100	100	Investment holding	Hong Kong
HLP Finance Limited^	US$1	100	100	Financial services	British Virgin Islands
HLP Financial Services Limited	RMB1	100	–	Financial services	Hong Kong
HLP Treasury Limited	2	100	100	Financial services	Hong Kong
HLP Treasury Services Limited*	2	100	–	Investment holding	Hong Kong
Hoi Sang Limited*	2	100	–	Investment holding	Hong Kong
Lockoo Limited*	1,000,002	100	–	Property development	Hong Kong
Mansita Limited*	2	100	–	Property leasing	Hong Kong
Modalton Limited	2	100	–	Property leasing	Hong Kong
Monafat Limited*	2	100	–	Property leasing	Hong Kong
Palex Limited*	2	100	–	Property leasing	Hong Kong
Pocaliton Limited	2	100	–	Property leasing	Hong Kong
Rago Star Limited	2	100	–	Property leasing	Hong Kong
Stooket Limited	2	100	100	Property leasing	Hong Kong
Tegraton Limited	2	100	–	Property leasing	Hong Kong
Wai Luen Investment Company, Limited*	100,000	100	–	Property leasing	Hong Kong
Yangli Limited*	2	100	–	Property leasing	Hong Kong

34 PRINCIPAL SUBSIDIARIES (Continued)

At December 31, 2015

Wholly Foreign Owned Enterprises in mainland China	Registered Capital	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Dalian Hang Lung Properties Ltd.	RMB3,926,877,355	100	–	Property development & leasing	Mainland China
Kunming Hang Ying Properties Ltd.	RMB5,187,321,800	100	–	Property development	Mainland China
Liaoning Hang Lung Properties Ltd.	RMB5,382,096,324	100	–	Property development & leasing	Mainland China
Shandong Hang Lung Properties Ltd.	US$385,000,000	100	–	Property development & leasing	Mainland China
Shenyang Hang Lung Properties Ltd.	US$349,990,000	100	–	Property development & leasing	Mainland China
Tianjin Hang Lung Properties Ltd.	HK$4,229,600,000	100	–	Property development & leasing	Mainland China
Wuxi Hang Lung Properties Ltd.	RMB3,837,746,261	100	–	Property development & leasing	Mainland China
Wuxi Hang Ying Properties Ltd.	HK$509,000,000	100	–	Property development	Mainland China
Hubei Hang Lung Property Development Co., Ltd.	RMB4,430,000,000	100	–	Property development	Mainland China

Equity Joint Ventures in mainland China	Registered Capital (US$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Shanghai Hang Bond Property Development Co., Ltd.	167,004,736	82	–	Property development & leasing	Mainland China
Shanghai Kong Hui Property Development Co., Ltd.	165,000,000	69.3#	–	Property development & leasing	Mainland China

^ Operated in Hong Kong

* Not audited by KPMG

\# Represents the Group's attributable interest in the commercial portion of the properties held either directly or indirectly by the subsidiary

The above list gives the principal subsidiaries of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

35 JOINT VENTURES

At December 31, 2015

Company	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Country Link Enterprises Limited	5,000,000	36.8	–	Investment holding	Hong Kong
Ease Smart Development Limited				Investment holding	Hong Kong
‘A’ share	1	–	–		
‘B’ share	1	100	–		
Star Play Development Limited*	3	33.3	–	Property leasing	Hong Kong

* Not audited by KPMG