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Hysan Development Company Limited

希慎興業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code : 00014)

PUBLICATION OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

In order to facilitate potential future fund-raising in the debt capital markets, Hysan Development Company Limited (the "Company") wishes to publish the audited consolidated financial statements of the Company and its subsidiaries (the "Group"), being a copy of its specified financial statements (as defined in Companies Ordinance (Cap. 622) of Hong Kong), for the year ended 31 December 2019 in Schedule 1 to this announcement.

By Order of the Board

Lee Irene Yun-Lien

Chairman

Hong Kong, 24 February 2020

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

* *Non-Executive Directors*

** *Independent Non-Executive Directors*

This announcement is published on the website of the Company (www.hysan.com.hk) and the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

SCHEDULE 1

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2019**

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 8 to 98, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and financial risk management.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to the inherent level of subjective judgements and estimates required in determining the fair values.

The Group's investment property portfolio comprises retail, office and residential properties mainly located in Causeway Bay, Hong Kong and is stated at fair value of HK\$79,116 million, accounting for approximately 82% of the Group's total assets as at 31 December 2019 with a fair value gain of HK\$792 million recognised in the consolidated statement of profit or loss for the year then ended.

All of the Group's investment properties are measured using the fair value model based on a valuation performed by an independent qualified professional valuer (the "Valuer"). As disclosed in note 3 of the Notes to the Consolidated Financial Statements section of the consolidated financial statements, in determining the fair values of the Group's investment properties, the Valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential of the investment properties in determining the fair values.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of investment properties included:

- Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work and their terms of engagement;
- Evaluating the appropriateness of the Valuer's valuation approaches to assess if they meet the requirements of the HKFRSs and industry norms;
- Challenging the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industry in Hong Kong; and
- Obtaining the detailed work of the Valuer on selected investment properties to evaluate the accuracy and relevance of key data inputs underpinning the valuation, such as rental income, term of existing leases by comparing them to the existing leases summary of the Group or reversionary income potential by comparing fair market rents estimated by the Valuer against recent lease renewals and evaluating whether capitalisation rates adopted are comparable to the market.

Independent Auditor's Report (Continued)

OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (Continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lee Wing Cheong, Wilfred.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 February 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	<u>Notes</u>	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Turnover	4	3,988	3,890
Property expenses		<u>(536)</u>	<u>(523)</u>
Gross profit		3,452	3,367
Investment income	6	154	78
Other gains and losses		10	(16)
Administrative expenses		(269)	(227)
Finance costs	7	(313)	(222)
Change in fair value of investment properties		792	3,532
Share of results of associates		<u>1,733</u>	<u>288</u>
Profit before taxation		5,559	6,800
Taxation	8	<u>(473)</u>	<u>(481)</u>
Profit for the year	9	<u>5,086</u>	<u>6,319</u>
Profit for the year attributable to:			
Owners of the Company		4,845	6,033
Non-controlling interests		<u>241</u>	<u>286</u>
		<u>5,086</u>	<u>6,319</u>
Earnings per share (expressed in HK cents)	14		
Basic		<u>463</u>	<u>577</u>
Diluted		<u>463</u>	<u>576</u>

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	<u>Note</u>	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Profit for the year		<u>5,086</u>	<u>6,319</u>
Other comprehensive (expenses) income	10		
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Gain on revaluation of properties held for own use (net of tax)		<u>21</u>	<u>47</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net adjustments to hedging reserve		29	(5)
Share of translation reserve of an associate		<u>(84)</u>	<u>(172)</u>
		<u>(55)</u>	<u>(177)</u>
Other comprehensive expenses for the year (net of tax)		<u>(34)</u>	<u>(130)</u>
Total comprehensive income for the year		<u><u>5,052</u></u>	<u><u>6,189</u></u>
Total comprehensive income attributable to:			
Owners of the Company		4,811	5,903
Non-controlling interests		<u>241</u>	<u>286</u>
		<u><u>5,052</u></u>	<u><u>6,189</u></u>

Consolidated Statement of Financial Position

As at 31 December 2019

	<u>Notes</u>	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Non-current assets			
Investment properties	15	79,116	77,442
Property, plant and equipment	16	776	747
Investments in associates	18	5,189	3,708
Loans to associates	18	11	11
Investment in a joint venture	19	143	145
Loans to a joint venture	19	1,090	1,062
Other financial investments	20	601	294
Debt securities	21	172	–
Other financial assets	22	8	1
Other receivables	23	291	386
		<hr/>	<hr/>
		87,397	83,796
Current assets			
Accounts and other receivables	23	314	203
Debt securities	21	–	227
Time deposits	24	5,735	748
Cash and cash equivalents	24	3,597	2,069
		<hr/>	<hr/>
		9,646	3,247
Current liabilities			
Accounts payable and accruals	25	934	873
Deposits from tenants		316	331
Amounts due to non-controlling interests	26	220	223
Borrowings	27	565	300
Taxation payable		416	108
		<hr/>	<hr/>
		2,451	1,835
Net current assets		<hr/> 7,195	<hr/> 1,412
Total assets less current liabilities		<hr/> 94,592	<hr/> 85,208
Non-current liabilities			
Borrowings	27	11,964	6,022
Other financial liabilities	22	46	26
Deposits from tenants		685	669
Deferred taxation	28	925	854
		<hr/>	<hr/>
		13,620	7,571
Net assets		<hr/> 80,972	<hr/> 77,637

Consolidated Statement of Financial Position (Continued)

As at 31 December 2019

	<u>Note</u>	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Capital and reserves			
Share capital	29	7,720	7,718
Reserves		<u>69,930</u>	<u>66,713</u>
Equity attributable to owners of the Company		77,650	74,431
Non-controlling interests		<u>3,322</u>	<u>3,206</u>
Total equity		<u>80,972</u>	<u>77,637</u>

The consolidated financial statements on pages 8 to 98 were approved and authorised for issue by the Board of Directors on 20 February 2020 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lee T.H. Michael
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company										
	Share capital	Share options reserve	General reserve	Investments revaluation reserve	Hedging reserve	Properties revaluation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
As at 1 January 2019	7,718	19	96	1	(48)	456	106	66,093	74,431	3,206	77,637
Profit for the year	-	-	-	-	-	-	-	4,845	4,845	241	5,086
Net losses arising from hedging instruments	-	-	-	-	(14)	-	-	-	(14)	-	(14)
Reclassification of net losses to profit or loss	-	-	-	-	43	-	-	-	43	-	43
Gain on revaluation of properties held for own use	-	-	-	-	-	25	-	-	25	-	25
Deferred taxation arising on revaluation of properties held for own use (note 28)	-	-	-	-	-	(4)	-	-	(4)	-	(4)
Share of translation reserve of an associate	-	-	-	-	-	-	(84)	-	(84)	-	(84)
Total comprehensive income (expenses) for the year	-	-	-	-	29	21	(84)	4,845	4,811	241	5,052
Issue of shares under share option schemes	2	-	-	-	-	-	-	-	2	-	2
Recognition of equity-settled share-based payments	-	4	-	-	-	-	-	-	4	-	4
Repurchase of own shares	-	-	-	-	-	-	-	(92)	(92)	-	(92)
Forfeiture of unclaimed dividends	-	-	-	-	-	-	-	1	1	-	1
Dividends paid during the year (note 13)	-	-	-	-	-	-	-	(1,507)	(1,507)	(125)	(1,632)
As at 31 December 2019	7,720	23	96	1	(19)	477	22	69,330	77,650	3,322	80,972

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2019

	Attributable to owners of the Company																			
	Share capital		Share options reserve		General reserve		Investments revaluation reserve		Properties revaluation reserve		Translation reserve		Retained profits		Total		Non-controlling interests		Total	
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
As at 1 January 2018	7,692	21	96	1	(43)	409	278	61,493	69,947	3,048	72,995									
Profit for the year	-	-	-	-	-	-	-	6,033	6,033	286	6,319									
Net gains arising from hedging instruments	-	-	-	-	2	-	-	-	2	-	2									
Reclassification of net gains to profit or loss	-	-	-	-	(7)	-	-	-	(7)	-	(7)									
Gain on revaluation of properties held for own use	-	-	-	-	-	56	-	-	56	-	56									
Deferred taxation arising on revaluation of properties held for own use (note 28)	-	-	-	-	-	(9)	-	-	(9)	-	(9)									
Share of translation reserve of an associate	-	-	-	-	-	-	(172)	-	(172)	-	(172)									
Total comprehensive (expenses) income for the year	-	-	-	-	(5)	47	(172)	6,033	5,903	286	6,189									
Issue of shares under share option schemes	26	(5)	-	-	-	-	-	-	21	-	21									
Recognition of equity-settled share-based payments	-	4	-	-	-	-	-	-	4	-	4									
Forfeiture of share options	-	(1)	-	-	-	-	-	1	-	-	-									
Dividends paid during the year (note 13)	-	-	-	-	-	-	-	(1,444)	(1,444)	(128)	(1,572)									
As at 31 December 2018	7,718	19	96	1	(48)	456	106	66,083	74,431	3,206	77,637									

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Operating activities		
Profit before taxation	5,559	6,800
Adjustments for:		
Net interest income	(154)	(78)
Other gains and losses	(7)	16
Depreciation of property, plant and equipment	22	17
Share-based payment expenses	4	4
Finance costs	313	222
Change in fair value of investment properties	(792)	(3,532)
Share of results of associates	(1,733)	(288)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	3,212	3,161
Increase in accounts and other receivables	(61)	(102)
Increase in accounts payable and accruals	148	60
Increase in deposits from tenants	1	105
	<hr/>	<hr/>
Cash generated from operations	3,300	3,224
Hong Kong Profits Tax paid	(98)	(475)
Hong Kong Profits Tax refunded	–	2
	<hr/>	<hr/>
Net cash from operating activities	3,202	2,751
	<hr/>	<hr/>
Investing activities		
Payments in respect of investment properties	(939)	(1,239)
Purchases of property, plant and equipment	(17)	(26)
Advance to associates	–	(1)
Dividends received from an associate	166	184
Advance to a joint venture	–	(56)
Payment in respect of other financial investments	(295)	(290)
Proceeds upon maturity of debt securities	227	500
Purchases of debt securities	(172)	–
Interest received	86	58
Additions to time deposits with original maturity over three months	(5,739)	(1,722)
Proceeds upon maturity of time deposits with original maturity over three months	748	1,602
	<hr/>	<hr/>
Net cash used in investing activities	(5,935)	(990)
	<hr/>	<hr/>

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

	<u>Notes</u>	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Financing activities			
Payment of finance costs		(304)	(221)
New bank loans	31	470	–
Issuance of fixed rate notes	31	6,120	300
Repayment of fixed rate note	31	(300)	(150)
Repayment to non-controlling interests of a subsidiary	31	(3)	(104)
Proceeds on exercise of share options		2	21
Payment on repurchase of own shares		(92)	–
Dividends paid		(1,507)	(1,444)
Dividends paid to non-controlling interests of a subsidiary		(125)	(128)
		<hr/>	<hr/>
Net cash from (used in) financing activities		4,261	(1,726)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		1,528	35
Cash and cash equivalents as at 1 January		2,069	2,034
		<hr/>	<hr/>
Cash and cash equivalents as at 31 December	24	3,597	2,069
		<hr/> <hr/>	<hr/> <hr/>

Significant Accounting Policies

For the year ended 31 December 2019

These consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

The principal accounting policies adopted are as follows:

1. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group’s equity attributable to owners of the Company therein.

Profit or loss and each item of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

2. Investments in Associates and a Joint Venture

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of parties sharing control.

The results, assets and liabilities of associate or joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associate or joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associate or joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate or joint venture, profits or losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of the interests in the associate or joint venture that are not related to the Group.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

3. Investment Properties

Investment properties are properties held to earn rental and/or for capital appreciation including properties under redevelopment for such purposes.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model, adjusted to exclude any prepaid or accrued operating lease income, if necessary. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under redevelopment are capitalised as part of the carrying amount of the investment properties under redevelopment. Investment properties under redevelopment are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under redevelopment and their carrying amount is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

4. Property, Plant and Equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property plant and equipment are stated in the consolidated statement of financial position at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses, if any.

For ownership interests of properties which includes both leasehold land and building elements, the leasehold land and building elements are allocated in proportion to the relative fair values unless such allocation cannot be made reliably, in which case, the entire properties are classified as property, plant and equipment.

Any revaluation increase arising from revaluation of properties is recognised in other comprehensive income and accumulated in the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in properties revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment less their estimated residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

5. Impairment of Non-Financial Assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, except for certain properties which are carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

6. Financial Instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value except for accounts receivables arising from contract with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(a) Classification of financial assets

Debt instruments and hybrid contracts that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at FVTPL on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9 “Financial Instruments” or at the date of initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost and is included in the investment income as disclosed in note 6 of the Notes to the Consolidated Financial Statements section.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

(ii) Financial assets at FVTPL

Financial assets at FVTPL include derivatives that are not designated and effective as hedging instruments, club debentures and fund investment.

Investments in equity instruments are classified as FVTPL, unless the Group designates such investment that is not held for trading as at FVTOCI.

Debt instruments that do not meet the amortised cost criteria (see (a) above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria may be designated as at FVTPL. A debt instruments may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses. Fair value is determined in the manner described in note 4 of the Financial Risk Management section.

The Group has not designated any debt instrument as at FVTPL or reclassified any debt instruments to or from FVTPL since the application of the 2010 version of the Hong Kong Financial Reporting Standard (“HKFRS”) 9 “Financial Instruments”.

The net gain or loss recognised in profit or loss excludes any dividend earned on the financial asset and is included in the “other gains and losses” line item.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

(b) Impairment of financial assets

The Group performs impairment assessment under Expected Credit Losses (“ECL”) model on financial assets (including loans to associates and a joint venture, debt securities, derivative financial instruments, accounts and other receivables, time deposits and cash and cash equivalents) and financial guarantee contracts which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on both quantitative and qualitative information combined with current conditions and forward-looking analysis.

The Group recognises lifetime ECL for accounts receivables. For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition. The ECL on the financial assets and the financial guarantee contracts are assessed individually for debtors with significant balances.

(c) Measurement and recognition of ECL

The measurement of ECL is a function of probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the discount rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 “Leases” (prior to 1 January 2019).

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected loss is the present value of the expected payment to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Interest income is calculated based on the gross carrying amount of the financial assets unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of account receivables, debt securities and loans to a joint venture where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

(d) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, except for a financial asset that is classified as FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

(a) Classification and measurement

Financial liabilities and equity instruments issued by a group entity are classified as financial liabilities or equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into (i) financial liabilities at FVTPL and (ii) other financial liabilities subsequently measured at amortised cost. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for financial liabilities, other than those financial liabilities at FVTPL, of which the interest expense is included in other gains or losses.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

(ii) Financial liabilities at FVTPL

Financial liabilities at FVTPL, representing those as held for trading, comprise derivatives that are not designated and effective as hedging instruments.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

(iii) Financial liabilities at amortised cost

Financial liabilities (including accounts payable and accruals, amounts due to non-controlling interests, deposits from tenants and borrowings) are subsequently measured at amortised cost, using the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in finance costs as disclosed in note 7 of the Notes to the Consolidated Financial Statements section.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to repurchase the Company's own equity instruments is deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(v) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contract is measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

(b) Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

Derivative financial instruments and hedging

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in note 22 of the Notes to the Consolidated Financial Statements section.

Derivatives are initially recognised at fair value at the date a derivative contract is entered and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Note 22 of the Notes to the Consolidated Financial Statements section sets out details of the fair values of the derivative instruments used for hedging purposes.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

(a) Cash flow hedges

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in other gains and losses.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Upon discontinuation of the hedging relationship of a cash flow hedge, any cumulative gain or loss accumulated in hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

(b) Discontinuation of hedges

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

7. Revenue Recognition

The Group recognises revenue from the following major sources:

- Leasing of investment properties
- Provision of property management services

The Group's accounting policies for rental income are included under "Leases" and accounting policies for revenue from property management services are as below:

Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when (or as) a performance obligation is satisfied i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods and services (or a bundle of goods or services) that are distinct or a series of distinct goods or services that are substantially the same.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue from provision of property management services is recognised over time.

8. Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transition in note 2 of the Notes to the Consolidated Financial Statements section)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. All other leases are classified as operating leases.

Upon application of HKFRS 16 in accordance with transition in note 2 of the Notes to the Consolidated Financial Statements section

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Rentals received with reference to turnover of tenants are recognised as income when they arise.

Allocation of consideration to components of a contract

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees. Such adjustments are recognised if the amount is considered material.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Prior to the application of HKFRS 16

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Rentals received with reference to turnover of tenants are recognised when earned.

9. Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve.

10. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

11. Retirement Benefit Costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

12. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interests in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property", such properties' value is presumed to be recovered through sale. Such a presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 "Income Taxes" (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

13. Equity-Settled Share-Based Payments Transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Significant Accounting Policies (Continued)

For the year ended 31 December 2019

14. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before 1 January 2019), and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. General

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company is 49/F., Lee Garden One, 33 Hysan Avenue, Hong Kong.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are property investment, management and development.

These consolidated financial statements are presented in Hong Kong dollars (“HKD”), which is the same as the functional currency of the Company.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied all of the new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the Group’s financial year beginning on 1 January 2019. Except as described below, the application of these new and amendments to HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17, and the related interpretations. However, assessments of whether a contract, which existed prior to 1 January 2019, contains a lease in accordance with HKAS 17 and Hong Kong (IFRIC) - Interpretation 4 have been maintained. No reassessment of the related lease contracts has been made.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. The Group, as a lessor, is thus not required to make any adjustment on transition for leases but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. However, the application of HKFRS 16 resulted the changes in accounting policies as described in the “Significant Accounting Policies” section.

Effective from 1 January 2019, lease payments received from lessees relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

The application of HKFRS 16 has had no material impact on the Group’s consolidated statement of profit or loss for the year ended 31 December 2019 and the consolidated statement of financial position as at 31 December 2019 and at the date of initial recognition.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The Group anticipated that the application of all these new or revised standards to HKFRSs will result in changes in certain accounting policies and may affect the presentation and disclosures in the consolidated financial statements but is not expected to have material impact on the Group's financial position and financial performance.

3. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in the "Significant Accounting Policies" section, the management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Fair value of investment properties

At the end of the reporting period, the Group's investment properties are stated at fair value of HK\$79,116 million (2018: HK\$77,442 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential taking into account a market participant's ability to generate economic benefits by using the asset in its highest and best use.

In relying on the valuation, management has exercised their judgement and is satisfied that the method of valuation is reflective of the current market conditions.

4. Turnover

Turnover represents gross rental income from leasing of investment properties and management fee income from provision of property management services for the year.

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

Contracts for property management services have various contractual periods for which the Group bills fixed amount for each month of service period. Substantially all of the revenue from provision of property management services is recognised at the amount to which the Group has right to invoice which reflect the progress towards complete satisfaction of performance obligations satisfied over time. The categories for disaggregation of revenue from provision of property management services recognised over time in Hong Kong are consistent with the segment disclosure under note 5 of the Notes to the Consolidated Financial Statements section.

5. Segment Information

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

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

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

Residential segment – leasing of luxury residential properties and related facilities

Property development segment – development and sale of properties

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Segment turnover and results

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

	<u>Retail</u> HK\$ million	<u>Office</u> HK\$ million	<u>Residential</u> HK\$ million	<u>Property development</u> HK\$ million	<u>Consolidated</u> HK\$ million
For the year ended 31 December 2019					
Turnover					
Leasing of investment properties	1,662	1,607	287	–	3,556
Provision of property management services	174	226	32	–	432
Segment revenue	1,836	1,833	319	–	3,988
Property expenses	(297)	(177)	(62)	–	(536)
Segment profit	1,539	1,656	257	–	3,452
Investment income					154
Other gains and losses					10
Administrative expenses					(269)
Finance costs					(313)
Change in fair value of investment properties					792
Share of results of associates					1,733
Profit before taxation					5,559

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

	<u>Retail</u> HK\$ million	<u>Office</u> HK\$ million	<u>Residential</u> HK\$ million	<u>Property development</u> HK\$ million	<u>Consolidated</u> HK\$ million
For the year ended 31 December 2018					
Turnover					
Leasing of investment properties	1,764	1,492	251	–	3,507
Provision of property management services	159	196	28	–	383
Segment revenue	1,923	1,688	279	–	3,890
Property expenses	(275)	(190)	(58)	–	(523)
Segment profit	1,648	1,498	221	–	3,367
Investment income					78
Other gains and losses					(16)
Administrative expenses					(227)
Finance costs					(222)
Change in fair value of investment properties					3,532
Share of results of associates					288
Profit before taxation					6,800

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in the "Significant Accounting Policies" section. Segment profit represents the profit earned by each segment without allocation of investment income, other gains and losses, administrative expenses (including central administrative costs and directors' emoluments), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the chief operating decision maker of the Group for the purpose of resource allocation and performance assessment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Segment assets

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

	<u>Retail</u> <i>HK\$ million</i>	<u>Office</u> <i>HK\$ million</i>	<u>Residential</u> <i>HK\$ million</i>	<u>Property development</u> <i>HK\$ million</i>	<u>Consolidated</u> <i>HK\$ million</i>
As at 31 December 2019					
Segment assets	35,080	35,499	8,561	1,233	80,373
Investments in and loans to associates					5,200
Other financial investments					601
Other assets					10,869
					<hr/>
Consolidated assets					97,043 <hr/> <hr/>
As at 31 December 2018					
Segment assets	35,112	34,160	8,185	1,207	78,664
Investments in and loans to associates					3,719
Other financial investment					294
Other assets					4,366
					<hr/>
Consolidated assets					87,043 <hr/> <hr/>

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

No segment liabilities analysis is presented as the Group's liabilities are monitored on a group basis.

Other than the investment in an associate and certain other financial investments, which operate in the People's Republic of China (the "PRC") and other major cities in Asia, with carrying amounts of HK\$5,800 million (2018: HK\$3,715 million), all the Group's assets are located in Hong Kong.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Other segment information

	<u>Retail</u> HK\$ million	<u>Office</u> HK\$ million	<u>Residential</u> HK\$ million	<u>Property development</u> HK\$ million	<u>Consolidated</u> HK\$ million
For the year ended 31 December 2019					
Additions to non-current assets	808	43	40	–	891
For the year ended 31 December 2018					
Additions to non-current assets	1,133	202	28	–	1,363

6. Investment Income

The following is an analysis of investment income:

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Interest income	121	44
Imputed interest income on interest-free loan to a joint venture	30	29
Reclassification of net gains from hedging reserve on financial instruments designated as cash flow hedges	3	5
	<u>154</u>	<u>78</u>

7. Finance Costs

Finance costs comprise:

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Interest on unsecured bank loans	43	33
Interest on unsecured fixed rate notes	254	173
	<u>297</u>	<u>206</u>
Total interest expenses	297	206
Other finance costs	13	11
	<u>310</u>	<u>217</u>
Net exchange (gains) losses on borrowings	(46)	4
Reclassification of net losses (gains) from hedging reserve on financial instruments designated as cash flow hedges	46	(2)
Medium Term Note Programme expenses	3	3
	<u>313</u>	<u>222</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

8. Taxation

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Current tax		
Hong Kong Profits Tax		
– current year	406	425
– overprovision in prior years	–	(2)
	<u>406</u>	<u>423</u>
Deferred tax (note 28)	67	58
	<u><u>473</u></u>	<u><u>481</u></u>

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

The taxation for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Profit before taxation	<u>5,559</u>	<u>6,800</u>
Tax at Hong Kong Profits Tax rate of 16.5%	917	1,122
Tax effect of share of results of associates	(286)	(48)
Tax effect of expenses not deductible for tax purposes	122	40
Tax effect of income not taxable for tax purposes	(276)	(634)
Tax effect of estimated tax losses not recognised	2	11
Recognition of previously unrecognised tax losses	(6)	(8)
Overprovision in prior years	–	(2)
Taxation for the year	<u><u>473</u></u>	<u><u>481</u></u>

In addition to the amount charged to the consolidated statement of profit or loss, deferred tax relating to the revaluation of the Group's properties held for own use has been charged directly to properties valuation reserve (see note 28 of the Notes to the Consolidated Financial Statements section).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

9. Profit for the Year

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	<u>3</u>	<u>3</u>
Depreciation of property, plant and equipment	<u>22</u>	<u>17</u>
Gross rental income from investment properties including rentals received with reference to turnover of tenants of HK\$73 million (2018: HK\$81 million)	(3,556)	(3,507)
Less:		
– Direct operating expenses arising from properties that generated rental income	527	498
– Direct operating expenses arising from properties that did not generate rental income	<u>9</u>	<u>25</u>
	<u>(3,020)</u>	<u>(2,984)</u>
Staff costs (including directors' emoluments)	<u>285</u>	<u>245</u>
Share of income tax of associates (included in share of results of associates)	<u>627</u>	<u>122</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

10. Other Comprehensive (Expenses) Income

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Other comprehensive (expenses) income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of properties held for own use:		
Gain on revaluation of properties held for own use	25	56
Deferred taxation arising on revaluation	(4)	(9)
	<u>21</u>	<u>47</u>
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net (losses) gains arising during the year	(14)	2
Reclassification of net losses (gains) to profit or loss	43	(7)
	<u>29</u>	<u>(5)</u>
Share of translation reserve of an associate	(84)	(172)
	<u>(55)</u>	<u>(177)</u>
Other comprehensive expenses for the year (net of tax)	<u>(34)</u>	<u>(130)</u>

Tax effect relating to other comprehensive (expenses) income:

	<u>2019</u>			<u>2018</u>		
	<u>Before-tax amount</u> HK\$ million	<u>Tax expense</u> HK\$ million	<u>Net-of-tax amount</u> HK\$ million	<u>Before-tax amount</u> HK\$ million	<u>Tax expense</u> HK\$ million	<u>Net-of-tax amount</u> HK\$ million
Gain on revaluation of properties held for own use	25	(4)	21	56	(9)	47
Net adjustments to hedging reserve	29	-	29	(5)	-	(5)
Share of translation reserve of an associate	(84)	-	(84)	(172)	-	(172)
	<u>(30)</u>	<u>(4)</u>	<u>(34)</u>	<u>(121)</u>	<u>(9)</u>	<u>(130)</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

11. Directors' Emoluments

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Directors' fees	3	3
Other emoluments		
Basic salaries, housing and other allowances	8	8
Bonus (Notes d & f)	15	14
Share-based payments	2	2
	<u>28</u>	<u>27</u>

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2019 and 2018, calculated with reference to their employment as Directors of the Company or for provision of other services to the Company and the Group, are set out below:

	<u>Directors'</u> <u>fees</u> HK\$'000 (Note e)	<u>Basic salaries,</u> <u>housing and</u> <u>other</u> <u>allowances</u> HK\$'000 (Note d)	<u>Bonus</u> HK\$'000 (Note d)	<u>Share-based</u> <u>payments</u> HK\$'000 (Note g)	<u>Retirement</u> <u>benefits</u> <u>scheme</u> <u>contributions</u> HK\$'000	<u>Total</u> HK\$'000
For the year ended						
31 December 2019						
Executive Director (Note a)						
Lee Irene Yun-Lien	-	7,929	15,000	2,037	18	24,984
Non-Executive Directors (Note b)						
Jebsen Hans Michael	268	-	-	-	-	268
Lee Anthony Hsien Pin	360	-	-	-	-	360
Lee Chien	293	-	-	-	-	293
Lee Tze Hau Michael	311	-	-	-	-	311
Independent Non-Executive Directors (Note c)						
Churchouse Frederick Peter	360	-	-	-	-	360
Fan Yan Hok Philip	455	-	-	-	-	455
Lau Lawrence Juen-Yee	293	-	-	-	-	293
Poon Chung Yin Joseph	498	-	-	-	-	498
Wong Ching Ying Belinda	268	-	-	-	-	268
	<u>3,106</u>	<u>7,929</u>	<u>15,000</u>	<u>2,037</u>	<u>18</u>	<u>28,090</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

	Directors' fees <i>HK\$'000</i> <i>(Note e)</i>	Basic salaries, housing and other allowances <i>HK\$'000</i> <i>(Note f)</i>	Bonus <i>HK\$'000</i> <i>(Note f)</i>	Share-based payments <i>HK\$'000</i> <i>(Note g)</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended						
31 December 2018						
Executive Director (Note a)						
Lee Irene Yun-Lien	–	7,694	14,616	1,762	18	24,090
Non-Executive Directors (Note b)						
Jebsen Hans Michael	270	–	–	–	–	270
Lee Anthony Hsien Pin	310	–	–	–	–	310
Lee Chien	290	–	–	–	–	290
Lee Tze Hau Michael	280	–	–	–	–	280
Independent Non-Executive Directors (Note c)						
Churchouse Frederick Peter	310	–	–	–	–	310
Fan Yan Hok Philip	420	–	–	–	–	420
Lau Lawrence Juen-Yee	260	–	–	–	–	260
Poon Chung Yin Joseph	465	–	–	–	–	465
Wong Ching Ying Belinda (Note h)	10	–	–	–	–	10
	<u>2,615</u>	<u>7,694</u>	<u>14,616</u>	<u>1,762</u>	<u>18</u>	<u>26,705</u>

Notes:

- (a) The Executive Director's emoluments shown above were for the services in connection with the management of the affairs of the Company and the Group.
- (b) The Non-Executive Directors' emoluments shown above were for the services as Directors of the Company.
- (c) The Independent Non-Executive Directors' emoluments shown above were for the services as Directors of the Company.
- (d) Year 2019:
The Remuneration Committee met in January 2019 to approve the 2019 annual fixed base salary and determine the 2018 performance-based bonus of the Company's Executive Director.

The annual cash compensations of Lee Irene Yun-Lien, Chairman, was revised to HK\$16,000,000 based on market benchmark, and the jobholder's experience, qualification, and performance. Annual base salary of Lee Irene Yun-Lien was at HK\$8,000,000 (making up 50% of the total package).

For the year ended 31 December 2019, the bonus of HK\$15,000,000 represented the 2019 bonus approved by the Committee in January 2020.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

- (e) Last revision of annual Directors' fees for serving on the Board (effective 1 June 2019) were approved by shareholders at the 2019 AGM. Details are set out in Remuneration Committee Report.

Directors' fees are calculated on annual basis and paid semi-annually. For Directors not having served the full year on a position, the fees will be calculated and paid on pro rata basis.

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2019 is set out below:

	Board	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee	2019 Total	2018 Total
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note i)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive Director						
Lee Irene Yun-Lien	-	-	-	-	-	-
Non-Executive Directors						
Jebsen Hans Michael	268	-	-	-	268	270
Lee Anthony Hsien Pin	268	92	-	-	360	310
Lee Chien	268	-	-	25	293	290
Lee Tze Hau Michael	268	-	43	-	311	280
Independent Non-Executive Directors						
Churchouse Frederick Peter	268	92	-	-	360	310
Fan Yan Hok Philip	268	92	70	25	455	420
Lau Lawrence Juen-Yee	268	-	-	25	293	260
Poon Chung Yin Joseph	268	162	43	25	498	465
Wong Ching Ying Belinda <i>(Note h)</i>	268	-	-	-	268	10
	2,412	438	156	100	3,106	2,615

- (f) Year 2018:
The Remuneration Committee met in February 2018 to approve the 2018 annual fixed base salary and the annual special fee and determine the 2017 performance-based bonus of the Company's Executive Director.

The annual cash compensations of Lee Irene Yun-Lien, Chairman, remained at HK\$15,386,000 based on market benchmark, and the jobholder's experience, qualification, and performance. Annual base salary of Lee Irene Yun-Lien remained unchanged at HK\$5,130,000 and annual special fee in recognition of extra responsibilities she assumed was HK\$2,564,000 (making up 50% of the total package).

For the year ended 31 December 2018, the bonus of HK\$14,616,000 represented the 2018 bonus approved by the Committee in January 2019.

- (g) Share-based payments are the fair values of share options granted to Executive Director, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive Director exercises the share options or not during the year. Details of the share option schemes are set out in note 37 of the Notes to the Consolidated Financial Statements section.
- (h) Wong Ching Ying Belinda was appointed as an Independent Non-Executive Director with effect from 18 December 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

- (i) The Audit Committee was renamed as “Audit and Risk Management Committee” with effect from 21 February 2019.

There was no arrangement under which a Director waived or agreed to waive any remuneration during both years.

There was no payment to a Director as inducement for Director to join the Group or compensation for the loss of office as a Director in connection with the management of the affairs of any member of the Group during both years.

Details of material interests of the Directors of the Company in transactions, arrangements or contracts entered into by subsidiaries of the Company are disclosed in the Directors’ Report.

12. Employees’ Emoluments

Of the five individuals with the highest emoluments in the Group, one (2018: one) was Director of the Company, details of whose emoluments are included in note 11 of the Notes to the Consolidated Financial Statements section. The emoluments of all of the five individuals with the highest emoluments for the years ended 31 December 2019 and 2018 were as follows:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Basic salaries, housing and other allowances	21	21
Bonus	21	20
Share-based payments (<i>Note</i>)	4	3
	<u>46</u>	<u>44</u>

Note:

Share-based payments are the fair values of share options granted to Executive Director and eligible employees, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive Director or eligible employees exercise the share options or not during the year.

Their emoluments are within the following bands:

	<u>Number of individuals</u>	
	<u>2019</u>	<u>2018</u>
HK\$4,000,001 to HK\$4,500,000	1	1
HK\$4,500,001 to HK\$5,000,000	2	2
HK\$6,500,001 to HK\$7,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$24,000,001 to HK\$24,500,000	–	1
HK\$24,500,001 to HK\$25,000,000	1	–
	<u>5</u>	<u>5</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Senior management (for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”)) during the year are Executive Director and other members of senior management of the Group. Their emoluments are within the following bands.

	<u>Number of individuals</u>	
	2019	2018
HK\$2,000,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$4,000,000	1	1
HK\$4,000,001 to HK\$5,000,000	3	3
HK\$6,000,001 to HK\$7,000,000	–	1
HK\$7,000,001 to HK\$8,000,000	1	–
HK\$24,000,001 to HK\$25,000,000	–	1
HK\$25,000,001 to HK\$26,000,000	1	–
	<u>6</u>	<u>7</u>

13. Dividends

(a) Dividends recognised as distribution during the year:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
2019 first interim dividend paid – HK27 cents per share	283	–
2018 first interim dividend paid – HK27 cents per share	–	283
2018 second interim dividend paid – HK117 cents per share	1,224	–
2017 second interim dividend paid – HK111 cents per share	–	1,161
	<u>1,507</u>	<u>1,444</u>

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

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Second interim dividend (in lieu of a final dividend) – HK117 cents per share (2018: HK117 cents per share)	<u>1,221</u>	<u>1,224</u>

The second interim dividend is not recognised as a liability as at 31 December 2019 because it has been declared after the end of the reporting period. It will be payable in cash.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

14. Earnings per Share

(a) Basic and diluted earnings per share

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

	<u>Earnings</u>	
	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	<u>4,845</u>	<u>6,033</u>
	<u>Number of shares</u>	
	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,046,186,877</u>	1,046,189,778
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>157,908</u>	<u>501,942</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,046,344,785</u>	<u>1,046,691,720</u>

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

(b) Adjusted basic and diluted earnings per share

For the purpose of assessing the performance of the Group's principal activities, the management is of the view that the profit for the year attributable to the owners of the Company should be adjusted in the calculation of basic and diluted earnings per share as follows:

For the year ended 31 December 2019

	<u>Profit</u> HK\$ million	<u>Basic</u> <u>earnings</u> <u>per share</u> HK cents	<u>Diluted</u> <u>earnings</u> <u>per share</u> HK cents
Profit for the year attributable to owners of the Company	4,845	463	463
Change in fair value of investment properties	(792)	(76)	(76)
Effect of non-controlling interests' shares	102	10	10
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(1,528)	(146)	(146)
Imputed interest income on interest-free loan to a joint venture	(30)	(3)	(3)
Other gains and losses	(10)	(1)	(1)
	<u>2,587</u>	<u>247</u>	<u>247</u>
Underlying Profit	2,587	247	247
	<u>2,587</u>	<u>247</u>	<u>247</u>
Recurring Underlying Profit	2,587	247	247

For the year ended 31 December 2018

	<u>Profit</u> HK\$ million	<u>Basic</u> <u>earnings</u> <u>per share</u> HK cents	<u>Diluted</u> <u>earnings</u> <u>per share</u> HK cents
Profit for the year attributable to owners of the Company	6,033	577	576
Change in fair value of investment properties	(3,532)	(338)	(337)
Effect of non-controlling interests' shares	144	14	14
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(96)	(9)	(9)
Imputed interest income on interest-free loan to a joint venture	(29)	(3)	(3)
Other gains and losses	16	1	1
	<u>2,536</u>	<u>242</u>	<u>242</u>
Underlying Profit	2,536	242	242
	<u>2,536</u>	<u>242</u>	<u>242</u>
Recurring Underlying Profit	2,536	242	242

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Notes:

- (a) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature. As there were no such adjustments in both 2019 and 2018, the Recurring Underlying Profit was the same as the Underlying Profit.
- (b) The denominators used in calculating the adjusted earnings per share are the same as those detailed above for basic and diluted earnings per share.

15. Investment Properties

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Fair Value		
At 1 January	77,442	72,470
Additions	891	1,363
Net transfer (to) from property, plant and equipment	(9)	77
Change in fair value recognised in profit or loss		
– unrealised	792	3,532
	<hr/>	<hr/>
As at 31 December	79,116	77,442
	<hr/> <hr/>	<hr/> <hr/>

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Fair value measurements and valuation processes

The fair value of the Group's investment properties as at 31 December 2019 and 2018 and as at the date of transfer to/from property, plant and equipment from/to investment properties has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's investment properties have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the investment properties, the management of the Group has considered the highest and best use of the investment properties.

The value of the completed investment properties is derived from the basis of capitalisation of net income with due allowance for the reversionary income potential but without allowances for any expenses or taxation which may be incurred in effecting a sale, and where appropriate, cross reference by sale comparables. There has been no change to the valuation technique during the year for completed properties.

All of the fair value measurements of the Group's investment properties were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out as below.

There were no transfers into or out of Level 3 during the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

Fair value measurements using significant unobservable inputs (Level 3)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of the Group's investment properties by operating and reportable segment.

	<u>Retail</u> <i>HK\$ million</i>	<u>Office</u> <i>HK\$ million</i>	<u>Residential</u> <i>HK\$ million</i>	<u>Total</u> <i>HK\$ million</i>
As at 1 January 2018	33,188	31,325	7,957	72,470
Additions	1,133	202	28	1,363
Net transfer from property, plant and equipment	77	–	–	77
Change in fair value recognised in profit or loss – unrealised	704	2,632	196	3,532
As at 31 December 2018	35,102	34,159	8,181	77,442
Additions	808	43	40	891
Net transfer to property, plant and equipment	–	(9)	–	(9)
Change in fair value recognised in profit or loss – unrealised	(851)	1,305	338	792
As at 31 December 2019	35,059	35,498	8,559	79,116

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair value for investment properties by operating and reportable segment and unobservable inputs used in the valuation models.

<u>Description</u>	<u>Fair value as at 31 December</u>		<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range/weighted average of unobservable inputs</u>
	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>			
Retail	35,059	35,102	Income capitalisation approach	(i) Capitalisation rate (ii) Prevailing market rent per month	5.00% - 5.25% (2018: 5.00% -5.25%) HK\$132 per square foot (2018: HK\$134 per square foot)
Office	35,498	34,159	Income capitalisation approach	(i) Capitalisation rate (ii) Prevailing market rent per month	4.25% - 5.00% (2018: 4.25% -5.00%) HK\$60 per square foot (2018: HK\$58 per square foot)
Residential	8,559	8,181	Income capitalisation approach	(i) Capitalisation rate (ii) Prevailing market rent per month	3.75% (2018: 3.75%) HK\$38 per square foot (2018: HK\$37 per square foot)

The higher the capitalisation rate, the lower the fair value.

Prevailing market rent is estimated based on independent valuer's view of recent lettings, within the subject properties and other comparable properties. It does not always equal to the committed rent by tenants. The higher the prevailing market rent, the higher the fair value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

16. Property, Plant and Equipment

	Leasehold land and buildings in Hong Kong HK\$ million (Note)	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
COST OR VALUATION					
As at 1 January 2018	722	99	70	2	893
Additions	–	17	16	1	34
Disposals	–	–	–	(1)	(1)
Net transfer to investment properties	(77)	–	–	–	(77)
Surplus on revaluation	51	–	–	–	51
As at 31 December 2018	696	116	86	2	900
Additions	–	7	10	–	17
Net transfer from investment properties	9	–	–	–	9
Surplus on revaluation	20	–	–	–	20
As at 31 December 2019	725	123	96	2	946
Comprising:					
At cost	–	123	96	2	221
At valuation	725	–	–	–	725
	725	123	96	2	946
ACCUMULATED DEPRECIATION					
As at 1 January 2018	–	92	49	1	142
Provided for the year	5	5	7	–	17
Eliminated on disposals	–	–	–	(1)	(1)
Eliminated on revaluation	(5)	–	–	–	(5)
As at 31 December 2018	–	97	56	–	153
Provided for the year	5	7	10	–	22
Eliminated on revaluation	(5)	–	–	–	(5)
As at 31 December 2019	–	104	66	–	170
CARRYING AMOUNTS					
As at 31 December 2019	725	19	30	2	776
As at 31 December 2018	696	19	30	2	747

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

The above items of property, plant and equipment are depreciated on a straight-line basis over the following terms or at the following rates per annum:

Leasehold land and buildings in Hong Kong	Over the term of the lease or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

Note:

Fair value measurements and valuation processes

The fair value of the Group's leasehold land and buildings in Hong Kong as at 31 December 2019 and 2018 and as at the date of transfer to/from investment properties from/to property, plant and equipment has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's leasehold land and buildings in Hong Kong have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the properties, the management of the Group has considered the highest and best use of the properties.

The value was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential but without allowance of any expenses or taxation which may be incurred in effecting a sale, and where appropriate, cross reference by sale comparables. There has been no change to the valuation technique during the year.

All of the fair value measurements of the Group's leasehold land and buildings in Hong Kong were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out as below.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair value for leasehold land and buildings in Hong Kong and unobservable inputs used in the valuation models.

<u>Description</u>	<u>Fair value as at 31 December</u>		<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range/weighted average of unobservable inputs</u>
	<u>2019</u>	<u>2018</u>			
	<i>HK\$ million</i>	<i>HK\$ million</i>			
Leasehold land and buildings in Hong Kong	725	696	Income capitalisation approach	(i) Capitalisation rate (ii) Prevailing market rent per month	4.25% – 4.75% (2018: 4.25% – 5.25%) HK\$72 per square foot (2018: HK\$68 per square foot)

The higher the capitalisation rate, the lower the fair value.

Prevailing market rent is estimated based on independent values view of recent lettings, within the subject properties and other comparable properties. It does not always equal to the committed rent by tenants. The higher the prevailing market rent, the higher the fair value.

The gain of HK\$25 million (2018: HK\$56 million) arising on revaluation has been recognised in other comprehensive income and accumulated in properties revaluation reserve.

Had the Group's leasehold land and buildings in Hong Kong been measured at historical cost less subsequent accumulated depreciation, their carrying amounts would have been HK\$171 million (2018: HK\$161 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$53 million (2018: HK\$47 million) and accumulated depreciation of HK\$37 million (2018: HK\$32 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$5 million (2018: HK\$3 million). There has been no disposal during both years ended 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

17. Particulars of Principal Subsidiaries of the Company

The table below lists the principal subsidiaries of the Company as at 31 December 2019 and 2018:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of ownership interests/ voting rights held by the Company		Principal activities
			directly	indirectly	
Admore Investments Limited	Hong Kong	HK\$2	100%	–	Investment holding
Alpha Ace Limited	Hong Kong	HK\$1	–	100%	Property development
Bamboo Grove Recreational Services Limited	Hong Kong	HK\$2	–	100%	Resident club management
Barrowgate Limited	Hong Kong	HK\$10,000	–	65.36%	Property investment
Earn Extra Investments Limited	Hong Kong	HK\$1	–	100%	Property investment
HD Investment Limited	British Virgin Islands	HK\$1	–	100%	Investment holding
HD Treasury Limited	Hong Kong	HK\$2	100%	–	Treasury operation
Hysan Corporate Services Limited	Hong Kong	HK\$2	100%	–	Provision of corporate services
Hysan Leasing Company Limited	Hong Kong	HK\$2	100%	–	Leasing administration
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Treasury operation
Hysan Marketing Services Limited	Hong Kong	HK\$1	–	100%	General business
Hysan IT Services Company Limited	Hong Kong	HK\$1	–	100%	Information technology
Hysan Property Management Limited	Hong Kong	HK\$2	100%	–	Property management
Hysan Treasury Limited	Hong Kong	HK\$2	100%	–	Treasury operation
Kwong Hup Holding Limited	British Virgin Islands	HK\$1	100%	–	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK\$1,000	100%	–	Property investment
Lee Theatre Realty Limited	Hong Kong	HK\$10	–	100%	Property investment
Leighton Property Company Limited	Hong Kong	HK\$2	–	100%	Property investment
Minsal Limited	Hong Kong	HK\$2	100%	–	Property investment
Main Rise Development Limited	Hong Kong	HK\$2	–	100%	Investment holding
Mariner Bay Limited	British Virgin Islands/ Hong Kong	US\$1	–	100%	Investment holding
Mondsee Limited	Hong Kong	HK\$2	100%	–	Property investment
OHA Property Company Limited	Hong Kong	HK\$2	–	100%	Property investment
Perfect Win Properties Limited	Hong Kong	HK\$2	–	100%	Property investment
Silver Nicety Company Limited	Hong Kong	HK\$20	–	100%	Property investment

The Directors of the Company are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets or liabilities or otherwise are operating subsidiaries of the Company. Other than unsecured fixed rate notes issued by Hysan (MTN) Limited (“Hysan MTN”) as disclosed in note 27 of the Notes to the Consolidated Financial Statements section, none of the subsidiaries had issued any debt securities at the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Barrowgate Limited

	2019 <i>HK\$ million</i>	2018 <i>HK\$ million</i>
Current assets	<u>392</u>	<u>347</u>
Non-current assets	<u>10,232</u>	<u>9,886</u>
Current liabilities	<u>(834)</u>	<u>(785)</u>
Non-current liabilities	<u>(200)</u>	<u>(193)</u>
Equity attributable to owners of the Company	<u>6,268</u>	<u>6,049</u>
Non-controlling interests	<u>3,322</u>	<u>3,206</u>
Turnover	<u>575</u>	<u>584</u>
Profit and total comprehensive income for the year	<u>696</u>	<u>825</u>
Profit and total comprehensive income attributable to owners of the Company	<u>455</u>	<u>539</u>
Profit and total comprehensive income attributable to the non-controlling interests	<u>241</u>	<u>286</u>
Dividends paid to non-controlling interests	<u>125</u>	<u>128</u>
Net cash inflows from operating activities	<u>455</u>	<u>347</u>
Net cash (outflows) inflows from investing activities	<u>(161)</u>	<u>380</u>
Cash outflows from financing activities	<u>(370)</u>	<u>(670)</u>
Net cash (outflows) inflows	<u>(76)</u>	<u>57</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

18. Investments in Associates and Loans to Associates

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	<u>5,187</u>	<u>3,706</u>
	<u><u>5,189</u></u>	<u><u>3,708</u></u>
Loans to associates classified as:		
Non-current assets	<u><u>11</u></u>	<u><u>11</u></u>

The balances of loans to associates are unsecured, interest-free and have no fixed repayment terms. The Directors of the Company are of the opinion that the Group will not demand repayment from the associates within the next twelve months from the end of the reporting period and the loans are therefore classified as non-current assets.

The Directors of the Company are of the opinion that a complete list of all associates will be of excessive length and the Group summarises details of the Group's material associate as at 31 December 2019 and 2018 as follows:

<u>Name of associate</u>	<u>Form of business structure</u>	<u>Place of incorporation/ establishment and operation</u>	<u>Class of share held/ registered capital</u>	<u>Effective interest held by the Group</u>	<u>Principal activities</u>
Country Link Enterprises Limited (Note)	Private limited company	Hong Kong	Ordinary share of HK\$5,000,000	26.3%	Investment holding
Shanghai Kong Hui Property Development Co., Ltd. (Note)	Sino-Foreign equity joint venture	The PRC	US\$165,000,000 [#]	24.7%	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd. (Note)	Sino-Foreign equity joint venture	The PRC	US\$140,000 [#]	23.7%	Property management

[#] Fully paid-up registered capital

Note:

Shanghai Kong Hui Property Development Co., Ltd. and Shanghai Grand Gateway Plaza Property Management Co., Ltd. are non-wholly owned subsidiaries of Country Link Enterprises Limited, together known as "Country Link".

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

The summarised consolidated financial information in respect of the Group's material associate is set out below. The summarised consolidated financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with HKFRSs. All of the Group's associates are accounted for using the equity method in the Group's consolidated financial statements.

Country Link

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Current assets	<u>1,795</u>	<u>1,953</u>
Non-current assets	<u>26,461</u>	<u>18,292</u>
Current liabilities	<u>(1,009)</u>	<u>(1,001)</u>
Non-current liabilities	<u>(6,211)</u>	<u>(4,214)</u>
Turnover	<u>1,399</u>	<u>1,397</u>
Profit for the year	<u>7,016</u>	<u>1,195</u>
Other comprehensive expense for the year	<u>(339)</u>	<u>(699)</u>
Total comprehensive income for the year	<u>6,677</u>	<u>496</u>
Group's share of results of the associate for the year	<u>1,734</u>	<u>294</u>
Group's share of other comprehensive expense of the associate for the year	<u>(84)</u>	<u>(172)</u>
Dividends received from the associate during the year	<u>166</u>	<u>184</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in the associate that is material to the Group recognised in the consolidated financial statements:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Net assets of the associate	21,036	15,030
Non-controlling interests of the associate	(1,249)	(887)
Net assets of the associate after deducting non-controlling interests of the associate	19,787	14,143
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	5,204	3,720
Others	(5)	(5)
Carrying amount of the Group's interest in the associate	5,199	3,715

19. Investment in a Joint Venture and Loans to a Joint Venture

Details of the Group's investment in and loans to a joint venture are as follows:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Investment in a joint venture		
Unlisted shares, at cost	–	–
Deemed capital contribution in a joint venture (<i>Note a</i>)	143	145
	143	145
Loans to a joint venture classified as:		
Non-current assets (<i>Note b</i>)	1,090	1,062

Notes:

- (a) The deemed capital contribution in a joint venture represents the fair value adjustments in relation to the loan to a joint venture at initial recognition based on the estimated timing on future cash flows.
- (b) The loans to a joint venture are unsecured and have no fixed repayment terms. As at 31 December 2019, except for the loans to a joint venture with aggregate carrying amounts of HK\$120 million (2018: HK\$120 million) which are carrying variable rates ranging from 2.94% to 4.71% (2018: 2.73% to 4.24%) per annum, the remaining loan to a joint venture of the Group is interest-free. The Directors of the Company are of the opinion that the Group will not demand repayment of the loans from the joint venture within the next twelve months from the end of the reporting period and the loans are therefore classified as non-current assets. The effective interest rate for imputed interest income on the interest-free portion is determined based on the cost of fund of the borrower per annum.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Details of the Group's joint venture as at 31 December 2019 and 2018 are as follows:

<u>Name of joint venture</u>	<u>Place of incorporation and operation</u>	<u>Class of share held</u>	<u>Effective ownership interest and voting rights held by the Group</u>	<u>Principal activities</u>
Strongbod Limited (Note a)	British Virgin Islands	Ordinary shares of US\$10	60% (Note b)	Investment holding
Gainwick Limited (Note a)	Hong Kong	Ordinary share of HK\$1	60% (Note b)	Property development and investment

Notes:

- (a) Gainwick Limited is a wholly owned subsidiary of Strongbod Limited, together known as "Strongbod".
- (b) Pursuant to the shareholder's agreement dated 5 December 2016, entered into by the Group, the joint venture partner and Strongbod, decisions on all relevant business and operation activities of Strongbod require unanimous board approval from directors of Strongbod appointed by the Group and those appointed by the joint venture partner. Therefore, the Group recognised the investment in Strongbod as a joint venture.

The summarised consolidated financial information in respect of the Group's material joint venture is set out below. The summarised consolidated financial information below represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with HKFRSs. The joint venture is accounted for using the equity method in the Group's consolidated financial statements. There was no material share of post-acquisition profits and other comprehensive income in both years.

Strongbod

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Current assets	<u>3,896</u>	<u>3,618</u>
Current liabilities	<u>(41)</u>	<u>(17)</u>
Non-current liabilities	<u>(3,855)</u>	<u>(3,601)</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in the joint venture that is material to the Group recognised in the consolidated financial statements:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Net assets of the joint venture	–	–
Proportion of the Group's ownership interest in the joint venture	<u>60%</u>	<u>60%</u>
Group's share of net assets of the joint venture	–	–
Add: Deemed capital contribution in the joint venture	<u>143</u>	<u>145</u>
Carrying amount of the Group's interest in the joint venture	<u><u>143</u></u>	<u><u>145</u></u>

20. Other Financial Investments

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Investment designated as at FVTOCI		
– Investment in equity security listed overseas (<i>Note a</i>)	<u>235</u>	–
Investment at FVTPL		
– Unlisted investment in a fund investment (<i>Note b</i>)	<u>366</u>	<u>294</u>
	<u><u>601</u></u>	<u><u>294</u></u>

Notes:

- (a) The investment is designated as at FVTOCI because the directors of the Company believe that the Group's strategy of holding the investment is expected to be held for long-term strategic purpose.
- (b) The balance represents the Group's interest in a fund investment as limited partner. The fund investment engages in property investment in Hong Kong and overseas projects. The fund investment is classified as fair value through profit or loss ("FVTPL").

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

21. Debt Securities

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Debt securities, at amortised cost:		
– listed in Hong Kong	172	196
– listed overseas	–	31
	<hr/>	<hr/>
Total	172	227
	<hr/> <hr/>	<hr/> <hr/>
Analysed for reporting purposes as:		
Current assets	–	227
Non-current assets	172	–
	<hr/>	<hr/>
	172	227
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2019, the effective yield of the debt securities ranged from 3.35% to 4.85% (2018: 1.81% to 2.09%) per annum, payable quarterly, semi-annually or annually, and the securities will mature from February 2022 to July 2022 (2018: from January 2019 to July 2019). At the end of the reporting period, none of these assets were past due.

Details of the impairment assessment of debt securities are set out in the Financial Risk Management section.

22. Other Financial Assets/Liabilities

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
		Non-current
Other financial assets		
Financial assets measured at FVTPL:		
Club debenture	1	1
Derivatives under hedge accounting:		
Cash flow hedges		
– Cross currency swap	7	–
	<hr/>	<hr/>
Total	8	1
	<hr/> <hr/>	<hr/> <hr/>
Other financial liabilities		
Derivatives under hedge accounting:		
Cash flow hedges		
– Cross currency swaps	46	26
	<hr/>	<hr/>
Total	46	26
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

(a) Cash flow hedges

Foreign currency risk

During the year, the Group used cross currency swaps (2018: forward foreign exchange contracts and cross currency swap) to manage its foreign currency exposure. The principal terms of the forward foreign exchange contracts and cross currency swaps have been negotiated to match the major terms of the respective designated hedged items and the management considers that the hedges are highly effective.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these outstanding forward foreign exchange contracts and cross currency swaps at the end of the reporting period are as follows:

Hedging instruments

	2019					2018				
	Average exchange rate*	Foreign currency	Notional amount		Fair value	Average exchange rate*	Foreign currency	Notional amount		Fair value
			HK\$		HK\$			HK\$		HK\$
			million	million	million			million	million	million
Forward foreign exchange contracts										
<i>Sell US dollars ("USD")</i> (Note a)										
Within 1 year	-	-	-	-	-	7.7996	USD	28	218	-
Cross currency swaps										
<i>Hedging of USD fixed rate notes</i> (Note b)										
More than 1 year but										
Not exceeding 5 years	7.7519	USD	300	2,326	7	7.7519	USD	300	2,326	(26)
More than 5 years	7.8449	USD	500	3,922	(46)	-	-	-	-	-
Total				6,248	(39)				2,544	(26)

* Average exchange rate represented the average exchange rate of HKD versus respective currencies weighted by the notional amounts of the contracts or the swaps.

Notes:

- (a) In 2018, the Group used HK\$218 million forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of debt securities denominated in USD at their respective maturity dates.
- (b) The Group used HK\$6,248 million (2018: HK\$2,326 million) cross currency swaps to convert USD interest and principal of US\$800 million (2018: US\$300 million) fixed rate notes into HKD.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Hedged items

	Carrying amount of the hedged item				Cash flow hedge reserves	
	Assets		Liabilities		2019 HK\$ million	2018 HK\$ million
	2019 HK\$ million	2018 HK\$ million	2019 HK\$ million	2018 HK\$ million		
USD debt securities	-	218	-	-	-	2
USD fixed rate notes	-	-	6,203	2,344	(19)	(50)

The hedging ineffectiveness for the years ended 31 December 2019 and 2018 was insignificant.

	Change in the value of the hedging instrument recognised in other comprehensive income		Amount reclassified from the cash flow hedge reserve to profit or loss		Line item affected in profit or loss because of the reclassification
	2019 HK\$ million	2018 HK\$ million	2019 HK\$ million	2018 HK\$ million	
	Forward foreign exchange contracts	1	1	(3)	
Cross currency swaps	(15)	1	46	(2)	Finance costs

The fair values of forward foreign exchange contracts and cross currency swaps are measured using quoted forward exchange rates and yield curves from quoted interest rates matching maturities of the contracts and swaps.

(b) Financial assets measured at FVTPL Club debenture

Amount represented investment in unlisted club debenture. The Group's investment in unlisted club debenture has been classified as financial assets measured at FVTPL.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

23. Accounts and Other Receivables

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Accounts receivable	24	15
Interest receivable	105	46
Prepayments in respect of investment properties	124	228
Other receivables and prepayments	352	300
	<hr/>	<hr/>
Total	605	589
	<hr/> <hr/>	<hr/> <hr/>
Analysed for reporting purposes as:		
Current assets	314	203
Non-current assets	291	386
	<hr/>	<hr/>
	605	589
	<hr/> <hr/>	<hr/> <hr/>

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK\$24 million (2018: HK\$15 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

At the end of the reporting period, HK\$10 million (2018: HK\$5 million) of the accounts receivable were past due but not impaired as the accounts receivables are generally fully covered by the deposits from corresponding tenants. The deposits from tenants safeguards the Group's rights and interests in the properties in the event of tenant's default and delinquency.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

24. Time Deposits/Cash and Cash Equivalents

Time deposits, cash and bank balances include bank deposits carrying effective interest rates ranging from 0.10% to 3.10% (2018: 0.20% to 3.40%) per annum.

As at 31 December 2019 and 2018, the Group performed impairment assessment on time deposits and bank balances and concluded that the probability of default of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

25. Accounts Payable and Accruals

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Accounts payable	319	257
Interest payable	131	74
Other payables	484	542
	<hr/>	<hr/>
	934	873
	<hr/> <hr/>	<hr/> <hr/>

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$220 million (2018: HK\$175 million) were aged less than 90 days.

26. Amounts Due to Non-Controlling Interests

The amounts due to non-controlling interests are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

27. Borrowings

The maturity profile based on the scheduled repayment dates set out in the respective borrowings agreement was as follow:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Non-current unsecured bank loans:		
Within 1 year	–	–
More than 1 year, but not exceeding 2 years	248	–
More than 2 years, but not exceeding 5 years	1,753	1,532
	2,001	1,532
Less: Amount due within 1 year included under current liabilities	–	–
	2,001	1,532
Non-current unsecured fixed rate notes:		
Within 1 year	565	300
More than 1 year, but not exceeding 2 years	–	565
More than 2 years, but not exceeding 5 years	3,265	3,277
More than 5 years	6,698	648
	10,528	4,790
Less: Amount due within 1 year included under current liabilities	(565)	(300)
	9,963	4,490
Total current borrowings	565	300
Total non-current borrowings	11,964	6,022
Total borrowings	12,529	6,322

All the bank loans are guaranteed as to principal and interest and are carrying variable-rate. Interest rates of the loans are normally re-fixed at every one to three months. The effective interest rates (which were also equal to contracted interest rates) were 2.70% (2018: 3.09%) per annum at the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

All the unsecured fixed rate notes were issued by Hysan MTN, a wholly owned subsidiary of the Company. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate. The contract rates per annum (before cross-currency swaps) at the end of the reporting period were as follows:

	2019		2018	
	HK\$ %	US\$ %	HK\$ %	US\$ %
Unsecured fixed rate notes	<u>2.81 – 5.38</u>	<u>2.82 – 3.50</u>	<u>3.66 – 5.38</u>	<u>3.50</u>

As detailed in note 22 of the Notes to the Consolidated Financial Statements section, during the years ended 31 December 2019 and 2018, cross currency swaps were used to hedge or manage the foreign exchange rate risks of the Group's USD fixed rate notes.

28. Deferred Taxation

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$ million	Revaluation of properties HK\$ million	Tax losses HK\$ million	Total HK\$ million
As at 1 January 2018	804	79	(96)	787
Charge (credit) to profit or loss (note 8)	97	(1)	(38)	58
Charge to other comprehensive income	–	9	–	9
As at 31 December 2018	901	87	(134)	854
Charge (credit) to profit or loss (note 8)	55	(1)	13	67
Charge to other comprehensive income	–	4	–	4
As at 31 December 2019	<u>956</u>	<u>90</u>	<u>(121)</u>	<u>925</u>

At the end of the reporting period, the Group has unused estimated tax losses of HK\$1,361 million (2018: HK\$1,437 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$735 million (2018: HK\$815 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$626 million (2018: HK\$622 million) due to the unpredictability of future profit streams and the tax losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

29. Share Capital

	<u>Number of shares</u>	<u>Share capital HK\$ million</u>
Ordinary shares, issued and fully paid:		
As at 1 January 2018	1,045,824,891	7,692
Issue of shares under share option schemes	677,000	26
	<hr/>	<hr/>
As at 31 December 2018	1,046,501,891	7,718
Issue of shares under share option schemes	49,000	2
Cancellation upon repurchase of own shares (<i>Note</i>)	(2,730,000)	–
	<hr/>	<hr/>
As at 31 December 2019	<u>1,043,820,891</u>	<u>7,720</u>

During the year of 2019, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

<u>Month of repurchase in 2019</u>	<u>Number of ordinary shares repurchased</u> (<i>Note</i>)	<u>Consideration per share</u>		<u>Aggregate consideration paid</u> HK\$ million
		<u>Highest</u> HK\$	<u>Lowest</u> HK\$	
August	50,000	33.80	31.75	2
September	250,000	31.70	30.65	8
October	1,550,000	31.10	28.70	47
November	400,000	31.15	30.70	12
December	750,000	31.00	28.95	23
	<hr/>			<hr/>
	<u>3,000,000</u>			<u>92</u>

Note:

The Company was authorised at its annual general meetings to repurchase its own ordinary shares not exceeding 10% of the total number of its issued shares as at the dates of the resolutions being passed. In 2019, the Company repurchased its ordinary shares on the Stock Exchange when they were trading at a significant discount to the Company's net asset value in order to enhance shareholder value. Out of 3,000,000 ordinary shares repurchased during 2019, 2,730,000 ordinary shares were cancelled during the year ended 31 December 2019, while the remaining 270,000 ordinary shares were cancelled in February 2020.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

30. Statement of Financial Position and Reserves of the Company

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Non-current assets		
Property, plant and equipment	–	–
Investments in subsidiaries	1,634	1,696
Other financial assets	1	1
Amounts due from subsidiaries	2,869	4,152
	<u>4,504</u>	<u>5,849</u>
Current assets		
Other receivables	8	4
Amounts due from subsidiaries	10,747	10,131
Cash and cash equivalents	22	1
	<u>10,777</u>	<u>10,136</u>
Current liabilities		
Other payables and accruals	79	64
Amounts due to subsidiaries	1,949	2,753
	<u>2,028</u>	<u>2,817</u>
Net current assets	<u>8,749</u>	<u>7,319</u>
Net assets	<u>13,253</u>	<u>13,168</u>
Capital and reserves		
Share capital (note 29)	7,720	7,718
Reserves	5,533	5,450
Total equity	<u>13,253</u>	<u>13,168</u>

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 20 February 2020 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lee T.H. Michael
Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Movement in the Company's reserve

	Share options reserve <i>HK\$ million</i>	General reserve <i>HK\$ million</i> <i>(Note a)</i>	Retained profits <i>HK\$ million</i>	Total <i>HK\$ million</i>
As at 1 January 2018	21	100	5,216	5,337
Issue of shares under share option schemes	(5)	–	–	(5)
Recognition of equity-settled share-based payments	4	–	–	4
Forfeiture of share option	(1)	–	1	–
Profit and total comprehensive income for the year	–	–	1,558	1,558
Dividends paid during the year <i>(note 13)</i>	–	–	(1,444)	(1,444)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2018	19	100	5,331	5,450
Recognition of equity-settled share-based payments	4	–	–	4
Repurchase of own shares	–	–	(92)	(92)
Profit and total comprehensive income for the year	–	–	1,677	1,677
Forfeiture of unclaimed dividends	–	–	1	1
Dividends paid during the year <i>(note 13)</i>	–	–	(1,507)	(1,507)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2019	23	100	5,410	5,533

Notes:

- (a) General reserve was set up from the transfer of retained profits.
- (b) The Directors of the Company considered that the application of the new and amendments to HKFRSs that are effective for the Company's financial year beginning on 1 January 2019 have no material impact on the Company's results and financial position.

The Company's reserves available for distribution to its owners as at 31 December 2019 amounted to HK\$5,510 million (2018: HK\$5,431 million), being its general reserve and retained profits at that date.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

31. Reconciliation of Assets/Liabilities Relating to Financing Activities

	<u>2019</u> HK\$ million	<u>2018</u> HK\$ million
Net debt (Note a)	(3,197)	(3,505)
Other financial liabilities (Note b)	(46)	(26)
Interest payable	(131)	(74)
Amounts due to non-controlling interests	(220)	(223)
	<u>(3,594)</u>	<u>(3,828)</u>

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Cash and cash equivalents	Time deposits	Other financial assets/ liabilities	Bank loans	Fixed rate notes	Interest payable	Amounts due to non- controlling interests	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
As at 1 January 2018	2,034	628	(30)	(1,550)	(4,635)	(74)	(327)	(3,954)
Cash flows, net	35	120	-	-	(148)	212	104	323
Other non-cash changes:								
Foreign exchange adjustments	-	-	5	-	(5)	-	-	-
Fair value adjustments	-	-	1	-	-	-	-	1
Interest expenses	-	-	(2)	(6)	(2)	(212)	-	(222)
Others	-	-	-	24	-	-	-	24
	<u>2,069</u>	<u>748</u>	<u>(26)</u>	<u>(1,532)</u>	<u>(4,790)</u>	<u>(74)</u>	<u>(223)</u>	<u>(3,828)</u>
As at 31 December 2018	2,069	748	(26)	(1,532)	(4,790)	(74)	(223)	(3,828)
Cash flows, net	1,528	4,987	-	(470)	(5,777)	247	3	518
Other non-cash changes:								
Foreign exchange adjustments	-	-	(46)	3	43	-	-	-
Fair value adjustments	-	-	29	-	-	-	-	29
Interest expenses	-	-	(3)	(2)	(4)	(304)	-	(313)
	<u>3,597</u>	<u>5,735</u>	<u>(46)</u>	<u>(2,001)</u>	<u>(10,528)</u>	<u>(131)</u>	<u>(220)</u>	<u>(3,594)</u>
As at 31 December 2019	3,597	5,735	(46)	(2,001)	(10,528)	(131)	(220)	(3,594)

Notes:

- (a) Net debt represents borrowings less time deposits, cash and cash equivalent as disclosed under note 5 of the Financial Risk Management section.
- (b) Other financial assets/liabilities represent the hedging instrument that was used to hedge against the foreign exchange rate risk arising from financing activities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

32. Retirement Benefits Plans

With effect from 1 December 2000, the Group set up an Enhanced Mandatory Provident Fund Scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF relevant income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF relevant income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$10 million (2018: HK\$9 million).

33. Commitments

At the end of the reporting period, the Group had the following capital commitments in respect of its investment properties, property, plant and equipment and subscription to a fund investment as limited partner:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
(a) Capital commitment:		
Contracted but not provided for investment properties and property, plant and equipment	<u>207</u>	<u>655</u>
(b) Other commitment:		
Subscription to a fund investment as limited partner	<u>14</u>	<u>74</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

34. Lease Commitments

At the end of the reporting period, the Group as lessor had contracted with tenants for the following undiscounted lease payments receivable over the non-cancellable periods:

	<u>2019</u> <i>HK\$ million</i>
Within one year	3,315
In the second year	2,390
In the third year	1,459
In the fourth year	799
In the fifth year	586
Over five years	1,517
	<hr/>
	10,066
	<hr/> <hr/>

The Group had contracted with lessees for the following future minimum lease payments

	<u>2018</u> <i>HK\$ million</i>
Within one year	3,180
In the second year to fifth year inclusive	4,960
Over five years	857
	<hr/>
	8,997
	<hr/> <hr/>

Operating lease payments represent rentals receivable by the Group from leasing of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of one to three years. Certain leases include rentals received with reference to turnover of tenants.

At the end of the reporting period, the Group as lessee had no commitment under non-cancellable operating lease.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

35. Related Party Transactions and Balances

(a) Transactions and balances with related parties

During the year, the Group has transaction with related party including imputed interest income on interest-free loan to a joint venture as disclosed under note 6 of the Notes to the Consolidated Financial Statements sections. At the end of the reporting period, the Group has several balances with related parties including loans to associates and loans to a joint venture as disclosed under note 18 and note 19 of the Notes to the Consolidated Financial Statements section. The Group has also granted guarantees to banks for facilities granted to a joint venture as disclosed under note 36 of the Notes to the Consolidated Financial Statements section.

In addition, the Group has the following transactions with other related parties during the year and has the following balances with them at the end of the reporting period:

	Gross rental income received from		Amount due to non-controlling interests	
	Year ended 31 December		At 31 December	
	2019	2018	2019	2018
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Related companies controlled by the Directors of the Company (Note a (i) & (ii))	<u>42</u>	<u>41</u>	<u>63</u>	<u>64</u>
Non-controlling shareholder of a subsidiary (Note b (i) & (ii))	<u>14</u>	<u>30</u>	<u>157</u>	<u>159</u>

Notes:

- (a) (i) The sum of transactions represents the aggregate gross rental income received from related companies where the Directors of the Company have controlling interests over these related companies.
- (ii) The balance represents outstanding loan advanced to a non-wholly owned subsidiary of the Company, Barrowgate Limited ("Barrowgate"), by Jebsen Capital Limited, a wholly owned subsidiary of Jebsen and Company, of which Jebsen Hans Michael is a director and a controlling shareholder, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (b) (i) The transaction represents the gross rental income received from Hang Seng Bank Limited ("Hang Seng"), the intermediate holding company of Imenson Limited ("Imenson"), and The Hongkong and Shanghai Banking Corporation Limited, the holding company of Hang Seng. Imenson is a non-controlling shareholder with significant influence over Barrowgate.
- (ii) The balance represents outstanding loan advanced to Barrowgate by Imenson, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

(b) Compensation of key management personnel

The remuneration of Directors and other members of senior management of the Group are as follows:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Directors' fees, salaries and other short-term employee benefits	48	48
Share-based payments	4	3
Retirement benefits scheme contributions	1	1
	<u>53</u>	<u>52</u>

The remuneration of the Directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

36. Contingent Liability

At the end of the reporting period, the Group had contingent liabilities as follows:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Guarantees given to banks in respect of:		
Banking facilities of a joint venture attributable to the Group		
– Utilised	1,147	999
– Unutilised	1,853	2,001
	<u>3,000</u>	<u>3,000</u>

In 2017, the Group issued corporate financial guarantees to banks in respect of banking facilities granted to a joint venture. The fair value of the financial guarantee contracts at its initial recognition is insignificant.

Other than the financial guarantees as disclosed above, several funding undertakings have also been provided by the Group to the extent not having been financed by drawdown made under the relevant banking facilities of the joint venture in relation to the completion of the underlying project of the joint venture.

Details of the impairment assessment of financial guarantees are set out in the Financial Risk Management section.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

37. Share-Based Payment Transactions

(a) Equity-settled share option scheme

The 2005 Scheme

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme.

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the 2005 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares).

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholder approval, being 10,499,636 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

The New Scheme

The Company adopted the New Scheme (together with the 2005 Scheme are referred to as the "Schemes") at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

The purpose of the New Scheme is to provide an incentive for employees of the Company and its subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Under the New Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue as at 15 May 2015, the date of the AGM approving the New Scheme (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for “refreshing” the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholder approval, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

During the year, a total of 1,286,200 (2018: 956,200) share options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

(b) Grant and vesting structures

Under the Company’s current policy, grants will be made on a periodic basis. For the Schemes, the exercise period is 10 years and vesting period is 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

(c) Movement of share options

The following table discloses movements of the Company's share options held by the Director and eligible employees during the current year:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2019	Changes during the year			Balance as at 31.12.2019
					Granted	Exercised	Cancelled/ lapsed (Note b)	
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	-	-	-	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	-	-	-	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	-	-	-	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	-	-	-	300,000
Eligible employees (Note c)								
	31.3.2010	22.45	31.3.2011 – 30.3.2020	50,000	-	-	-	50,000
	31.3.2011	32.00	31.3.2012 – 30.3.2021	32,000	-	-	-	32,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	70,000	-	-	-	70,000
	28.3.2013	39.20	28.3.2014 – 27.3.2023	85,000	-	-	-	85,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	46,000	-	-	-	46,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	62,667	-	-	-	62,667
				<u>1,322,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,322,667</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2019	Changes during the year			Balance as at 31.12.2019
					Granted	Exercised	Cancelled/ lapsed (Note b)	
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	-	-	-	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	-	-	-	300,000
	1.3.2018	44.60	1.3.2019 – 29.2.2028	373,200	-	-	-	373,200
	22.2.2019	42.40 (Note d)	22.2.2020 – 21.2.2029	-	494,200	-	-	494,200
Eligible employees								
(Note c)	31.3.2016	33.05	31.3.2017 – 30.3.2026	174,000	-	(49,000) (Note e)	-	125,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	248,667	-	-	(4,000)	244,667
	29.3.2018	41.50	29.3.2019 – 28.3.2028	513,000	-	-	(17,000)	496,000
	29.3.2019	42.05 (Note f)	29.3.2020 – 28.3.2029	-	792,000	-	(30,000)	762,000
				<u>1,983,867</u>	<u>1,286,200</u>	<u>(49,000)</u>	<u>(51,000)</u>	<u>3,170,067</u>
Exercisable at the end of the year								<u>2,457,059</u>

Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon resignations of certain eligible employees.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 21 February 2019) was HK\$41.75.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$41.31.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2019) was HK\$41.90.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

In respect of the share options exercised during the year ended 31 December 2019, the weighted average share price at the dates of exercise was HK\$41.02.

Apart from the above, the Company had not granted any share option under the Schemes to any other person as required to be disclosed under Rule 17.07 of the Listing Rules in 2019.

The following table discloses movements of the Company's share options held by the Director and eligible employees in prior year:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance	Changes during the year			Balance
				as at 1.1.2018	Granted	Exercised	Cancelled/ lapsed (Note b)	as at 31.12.2018
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	-	-	-	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	-	-	-	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	-	-	-	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	-	-	-	300,000
Eligible employees (Note c)								
	31.3.2009	13.30	31.3.2010 – 30.3.2019	59,000	-	(59,000) (Note d)	-	-
	31.3.2010	22.45	31.3.2011 – 30.3.2020	70,334	-	(20,334) (Note e)	-	50,000
	31.3.2011	32.00	31.3.2012 – 30.3.2021	54,000	-	(22,000) (Note f)	-	32,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	105,334	-	(35,334) (Note g)	-	70,000
	28.3.2013	39.20	28.3.2014 – 27.3.2023	153,000	-	(51,000) (Note h)	(17,000)	85,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	154,000	-	(108,000) (Note i)	-	46,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	204,667	-	(138,333) (Note j)	(3,667)	62,667
				<u>1,777,335</u>	<u>-</u>	<u>(434,001)</u>	<u>(20,667)</u>	<u>1,322,667</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance	Changes during the year			Balance
				as at 1.1.2018	Granted	Exercised	Cancelled/ lapsed (Note b)	as at 31.12.2018
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	-	-	-	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	-	-	-	300,000
	1.3.2018	44.60 (Note k)	1.3.2019 – 29.2.2028	-	373,200	-	-	373,200
Eligible employees (Note c)	31.3.2016	33.05	31.3.2017 – 30.3.2026	377,668	-	(158,333) (Note l)	(45,335)	174,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	409,000	-	(84,666) (Note m)	(75,667)	248,667
	29.3.2018	41.50 (Note n)	29.3.2019 – 28.3.2028	-	583,000	-	(70,000)	513,000
				<u>1,461,668</u>	<u>956,200</u>	<u>(242,999)</u>	<u>(191,002)</u>	<u>1,983,867</u>
Exercisable at the end of the year								<u>1,791,662</u>

Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon resignations of certain eligible employees.
- Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$39.25.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$45.36.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$44.55.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.56.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.88.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.99.
- (j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$42.85.
- (k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 February 2018) was HK\$45.35.
- (l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$42.52.
- (m) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$42.33.
- (n) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2018) was HK\$40.75.

In respect of the share options exercised during the year ended 31 December 2018, the weighted average share price at the dates of exercise was HK\$42.55.

Apart from the above, the Company had not granted any share option under the Schemes to any other person as required to be disclosed under Rule 17.07 of the Listing Rules in 2018.

(d) Fair values of share options

The Group has applied HKFRS 2 to account for its share options granted. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In the current year, the Group recognised the share option expenses of HK\$4 million (2018: HK\$4 million) in relation to share options granted by the Company, of which HK\$2 million (2018: HK\$2 million) related to the Director (see note 11), with a corresponding adjustment recognised in the Group's share options reserve.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

The inputs into the Model were as follows:

<u>Date of grant</u>	<u>29.3.2019</u>	<u>22.2.2019</u>	<u>29.3.2018</u>	<u>1.3.2018</u>
Closing share price at the date of grant	HK\$42.050	HK\$42.400	HK\$41.500	HK\$43.700
Exercise price	HK\$42.050	HK\$42.400	HK\$41.500	HK\$44.600
Risk free rate (Note a)	1.406%	1.552%	1.802%	1.741%
Expected life of option (Note b)	5 years	5 years	5 years	5 years
Expected volatility (Note c)	17.689%	17.710%	17.923%	17.534%
Expected dividend per annum (Note d)	HK\$1.342	HK\$1.342	HK\$1.288	HK\$1.288
Estimated fair values per share option	HK\$4.460	HK\$4.750	HK\$4.900	HK\$4.760

Notes:

- (a) Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- (b) Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- (c) Expected volatility: being the appropriate historical volatility of closing prices of the shares of the Company over the past 5 years immediately before the date of grant.
- (d) Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years

Financial Risk Management

For the year ended 31 December 2019

1. Financial Risk Management Objectives and Policies

The Group's major financial instruments include loans to associates, loans to a joint venture, other financial investments, debt securities, accounts and other receivables, time deposits, cash and cash equivalents, accounts payable and accruals, amounts due to non-controlling interests, borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective Notes to the Consolidated Financial Statements sections. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk and impairment assessment

The credit risk of the Group is primarily attributable to loans to associates, loans to a joint venture, accounts and other receivables, derivative financial instruments, debt securities, time deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group reviewed and assessed the Group's existing financial assets and financial guarantee contract for impairment using reasonable, supportable and forward-looking information that is available without undue cost or effort in accordance with HKFRS 9. For the purpose of internal credit risk management, the Group uses financial information (such as historical settlement records, past due records, deposits held or other credit enhancement) to assess whether credit risk has increased significantly since initial recognition.

The Group's internal credit risk grading assessment comprises the following categories:

<u>Internal credit rating</u>	<u>Description</u>	<u>Accounts receivables</u>	<u>Other financial assets</u>
Performing	The counterparty has a low credit risk of default and does not have any past-due amounts	Lifetime Expected Credit Losses ("ECL") – not credit-impaired	12-month ECL – not credit-impaired
Non-performing	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

Financial Risk Management (Continued)

For the year ended 31 December 2019

Loans to associates and a joint venture

The Group regularly monitors the business performance of the associates and joint venture. The Group's credit risk in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. As at 31 December 2019, these loans with gross carrying amount of HK\$1,107 million (2018: HK\$1,077 million) are considered to be performing and were assessed individually based on 12-month ECL.

Accounts and other receivables

Credit checks on tenants are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the expected credit losses of each individual debt, after taking into consideration the deposits from tenants, at the end of each reporting period. As at 31 December 2019, accounts and other receivables with gross carrying amount of HK\$605 million (2018: HK\$589 million) are considered to be performing and were assessed individually based on the respective lifetime ECL and 12-month ECL.

Derivative financial instruments, debt securities, time deposits and bank balances

Credit exposure to financial institutions and debt securities issuers are monitored and reported regularly to the management. The exposure to each counterparty comprised (i) investment value of financial assets (including bank balances, time deposits and debt securities); (ii) net positive value of derivative financial instruments and; (iii) potential exposures to derivatives which are based on the remaining term and the notional amount of the derivative financial instruments.

The Group only deals with financial institutions and invests in debt securities issued by issuers that have strong credit ratings to mitigate counterparty risk. As at 31 December 2019, derivative financial instruments, debt securities, time deposits and bank balances with gross carrying amount of HK\$9,512 million (2018: HK\$3,045 million) were assessed individually based on 12-month ECL and considered to be performing as all financial institutions that the Group dealt with and debt securities invested in had credit ratings A or above as rated by international credit rating agencies. In order to limit exposure to each financial institution and debt securities issuers, an exposure limit was set with each counterparty according to their external credit rating with regular review by management.

Other than concentration of credit risk on loans to associates and a joint venture, the Group does not have any other significant concentration of credit risk.

No credit loss is provided for except for loans to a joint venture and debt securities. A reconciliation of loss allowances recognized is presented below.

Financial Risk Management (Continued)

For the year ended 31 December 2019

	Loss allowance for	
	Loans to a joint venture HK\$ million	Debt securities HK\$ million
As at 1 January 2018	5	1
Net impairment loss under ECL model	(1)	–
As at 31 December 2018	4	1
Net impairment loss under ECL model	2	3
As at 31 December 2019	6	4

The maximum exposure to credit risk is represented by the carrying amount of each financial asset at amortised cost in the consolidated statement of financial position after deducting any impairment allowance. Besides, the Group is also exposed to credit risk arising from the corporate financial guarantees which will cause a financial loss to the Group if the guarantee is called out.

In respect of the financial guarantee contract, the credit risk exposures of the Group is assessed under 12-month ECL and concluded that the loss given default of the counter party, a joint venture, is insignificant and accordingly, no allowance of credit loss is provided. Details of the Group's credit risk maximum exposure are set out in note 36 of the Notes to the Consolidated Financial Statements section.

(b) Liquidity risk

The Group closely monitors its liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group for its non-derivative financial liabilities based on the agreed repayment terms. Maturity of the Group's financial guarantee contract is presented separately. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars ("HKD"), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

Financial Risk Management (Continued)

For the year ended 31 December 2019

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
As at 31 December 2019						
Non-derivative financial liabilities						
Accounts payable and accruals	(934)	(934)	(934)	-	-	-
Deposits from tenants	(1,001)	(1,001)	(316)	(277)	(389)	(19)
Amounts due to non-controlling interests	(220)	(220)	(220)	-	-	-
Unsecured bank loans	(2,001)	(2,223)	(66)	(315)	(1,842)	-
Unsecured fixed rate notes	(10,528)	(13,049)	(910)	(324)	(4,053)	(7,762)
	<u>(14,684)</u>	<u>(17,427)</u>	<u>(2,446)</u>	<u>(916)</u>	<u>(6,284)</u>	<u>(7,781)</u>

As at 31 December 2018

Non-derivative financial liabilities						
Accounts payable and accruals	(873)	(873)	(873)	-	-	-
Deposits from tenants	(1,000)	(1,000)	(331)	(216)	(439)	(14)
Amounts due to non-controlling interests	(223)	(223)	(223)	-	-	-
Unsecured bank loans	(1,532)	(1,732)	(48)	(48)	(1,636)	-
Unsecured fixed rate notes	(4,790)	(5,569)	(472)	(731)	(3,651)	(715)
	<u>(8,418)</u>	<u>(9,397)</u>	<u>(1,947)</u>	<u>(995)</u>	<u>(5,726)</u>	<u>(729)</u>

Note:

In addition to the items as set out in the above liquidity risk table, the maximum amount the Group could be required to settle under a financial guarantee provided by the Group in respect of banking facilities granted to a joint venture is HK\$3,000 million as at 31 December 2019 and 2018, if such amount is claimed by the counterparty to the guarantee at any time within the guaranteed period. Based on expectations at the end of the reporting period, the Directors of the Company consider that it is more likely than not that no amount will be payable by the Group under such financial guarantee arrangement.

Financial Risk Management (Continued)

For the year ended 31 December 2019

The following table details the Group's remaining contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than HKD, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
As at 31 December 2019						
Derivative settled gross						
Cross currency swaps	(46)					
Outflow		(7,575)	(193)	(193)	(2,755)	(4,434)
Inflow		7,611	191	192	2,787	4,441
As at 31 December 2018						
Derivative settled gross						
Forward foreign exchange contracts	-					
Outflow		(219)	(219)	-	-	-
Inflow		218	218	-	-	-
Cross currency swaps	(26)					
Outflow		(2,687)	(85)	(85)	(2,517)	-
Inflow		2,720	82	82	2,556	-

Financial Risk Management (Continued)

For the year ended 31 December 2019

(c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range. The Group is exposed to fair value interest rate risk in relation to fixed rate debt securities (see note 21 of the Notes to Consolidated Financial Statements section).

As at 31 December 2019, about 16.0% (2018: 24.5%) of the Group's gross debts was effectively on a floating rate basis. The ratio could be adjusted according to views about changes in the interest rate trend going forward. In addition, the Group is exposed to cash flow interest rate risk as the interest income derived from time deposits and bank balances is subject to interest rate changes. Other than the concentration of interest rate risk related to the movements in Hong Kong Interbank Offered Rate, the Group has no significant concentration of interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and all other variables were held constant. Such change has been applied to non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -25 basis points ("bps") (2018: +100 and -25 basis points) was applied to the HKD and US dollars ("USD") yield curves at the end of the reporting period. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	bps increase HK\$ million	bps decrease HK\$ million	bps increase HK\$ million	bps decrease HK\$ million
As at 31 December 2019	<u>(17)</u>	<u>4</u>	<u>4</u>	<u>(1)</u>
As at 31 December 2018	<u>(14)</u>	<u>4</u>	<u>7</u>	<u>(2)</u>

Financial Risk Management (Continued)

For the year ended 31 December 2019

(d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements for debt management. To cover foreign exchange exposures arising from debts, the Group's foreign currency denominated monetary liabilities may be hedged back to HKD unless the liabilities are naturally hedged by the underlying asset in the same foreign currency. In managing the Group's monetary assets, the Group limits the aggregate net foreign currency exposures to a certain threshold. Exposures exceeding that threshold will be hedged back to HKD. The majority of the Group's assets are located and all rental income and management fee income are derived in Hong Kong, and denominated in HKD. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in USD. The Group's unsecured fixed rate notes are hedged by cross currency swaps.

	2019		2018	
	<i>US\$ million</i>	Total equivalent to <i>HK\$ million</i>	<i>US\$ million</i>	Total equivalent to <i>HK\$ million</i>
Assets				
Cash	2	15	–	3
Time deposits	35	274	21	161
Debt securities	22	172	29	227
Other financial investments	77	601	38	294
	136	1,062	88	685
Liabilities				
Bank loan	60	464	–	–
Unsecured fixed rate notes	800	6,198	300	2,344
	860	6,662	300	2,344

Other than concentration of currency risk of the above items denominated in USD (2018: USD), the Group has no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 22 of the Notes to the Consolidated Financial Statements section, to hedge against part of the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

Financial Risk Management (Continued)

For the year ended 31 December 2019

Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and all other variable were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and other comprehensive income. Change of 500 percentage in points (“pips”) (2018: 500 pips) was applied to the HKD: USD (2018: HKD: USD) spot and forward rates at the end of the reporting period.

In management’s opinion, the sensitivity analysis is unrepresentative of the currency risk as the year end exposure does not reflect the exposure during the year.

	Increase (decrease) in profit or loss		Increase (decrease) in other comprehensive income	
	pips increase HK\$ million	pips decrease HK\$ million	pips increase HK\$ million	pips decrease HK\$ million
As at 31 December 2019				
USD	4	(4)	4	(4)
As at 31 December 2018				
USD	3	(3)	1	(1)

(e) Other price risk

The Group is exposed to other price risk through its investment in equity security measured at fair value through other comprehensive income (“FVTOCI”) and fund investment measured at fair value through profit or loss (“FVTPL”). The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

No sensitivity analyses on other price risk are presented since the exposure resulted from the expected changes in fair value of both investments at the reporting date is considered insignificant.

Financial Risk Management (Continued)

For the year ended 31 December 2019

2. Categories of Financial Instruments

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Financial assets		
FVTPL	367	295
FVTOCI	235	–
Derivative instrument under hedge accounting	7	–
Amortised cost (including cash and cash equivalents)	<u>10,757</u>	<u>4,203</u>
	<u><u>11,366</u></u>	<u><u>4,498</u></u>
Financial liabilities		
Derivative instruments under hedge accounting	46	26
Amortised cost	<u>14,684</u>	<u>7,418</u>
	<u><u>14,730</u></u>	<u><u>7,444</u></u>

3. Financial Assets and Financial Liabilities Subject to Enforceable Master Netting Arrangements or Similar Agreements

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements (“ISDA Agreements”) signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts. Other than derivatives transactions mentioned above, the Group has no other financial assets and financial liabilities which are offset in the Group’s consolidated statement of financial statements or are subject to similar netting arrangements.

(a) Financial assets subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial assets <i>HK\$ million</i>	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position <i>HK\$ million</i>	Net amounts of financial assets presented in the consolidated statement of financial position <i>HK\$ million</i>
As at 31 December 2019			
Derivatives under hedge accounting	<u>7</u>	<u>–</u>	<u>7</u>
As at 31 December 2018			
Derivatives under hedge accounting	<u>–</u>	<u>–</u>	<u>–</u>

Financial Risk Management (Continued)

For the year ended 31 December 2019

(b) Net financial assets subject to enforceable master netting arrangements or similar agreements, by counterparty

	Net amounts of financial assets presented in the consolidated statement of financial position <i>HK\$ million</i>	Financial liabilities not set off in the consolidated statement of financial position <i>HK\$ million</i>	Net amount <i>HK\$ million</i>
As at 31 December 2019			
Counterparty A	7	(7)	–
	<u>7</u>	<u>(7)</u>	<u>–</u>
As at 31 December 2018			
Counterparty A	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>

(c) Financial liabilities subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial liabilities <i>HK\$ million</i>	Gross amounts of recognised financial assets set off in the consolidated statement of financial position <i>HK\$ million</i>	Net amounts of financial liabilities presented in the consolidated statement of financial position <i>HK\$ million</i>
As at 31 December 2019			
Derivatives under hedge accounting	(46)	–	(46)
	<u>(46)</u>	<u>–</u>	<u>(46)</u>
As at 31 December 2018			
Derivatives under hedge accounting	(26)	–	(26)
	<u>(26)</u>	<u>–</u>	<u>(26)</u>

Financial Risk Management (Continued)

For the year ended 31 December 2019

(d) Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

	Net amounts of financial liabilities presented in the consolidated statement of financial position <i>HK\$ million</i>	Financial assets not set off in the consolidated statement of financial position <i>HK\$ million</i>	Net amount <i>HK\$ million</i>
As at 31 December 2019			
Counterparty A	(19)	7	(12)
Counterparty B	(5)	–	(5)
Counterparty C	(12)	–	(12)
Counterparty D	(10)	–	(10)
	<u>(46)</u>	<u>7</u>	<u>(39)</u>
As at 31 December 2018			
Counterparty A	<u>(26)</u>	<u>–</u>	<u>(26)</u>

4. Fair Value Measurement

(a) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair values of financial assets and financial liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow methodology taking into account the market interest rate and credit risk of the counterparties and of the Group as appropriate.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values, except for the carrying amount of HK\$10,528 million (2018: HK\$4,790 million) unsecured fixed rate notes as stated in note 27 of the Notes to the Consolidated Financial Statements section with fair value of HK\$9,096 million (2018: HK\$4,824 million).

The fair value of HK\$4,649 million (2018: HK\$2,348 million) of the unsecured fixed rate notes is categorised into Level 1 of the fair value hierarchy, in which the fair value was derived from quoted prices in an active market translated at the spot foreign exchange rate of the respective currency at year end.

The fair value of HK\$4,447 million (2018: HK\$2,476 million) of the unsecured fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

Financial Risk Management (Continued)

For the year ended 31 December 2019

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Financial assets				
<i>Financial assets at FVTPL</i>				
Unlisted club debenture	–	1	–	1
Fund investment	–	–	366	366
<i>Financial asset at FVTOCI</i>				
Listed investment in equity security	235	–	–	235
<i>Derivative under hedge accounting</i>				
Cross currency swap	–	7	–	7
Total	<u>235</u>	<u>8</u>	<u>366</u>	<u>609</u>

	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Financial liabilities				
<i>Derivatives under hedge accounting</i>				
Cross currency swaps	–	46	–	46

Financial Risk Management (Continued)

For the year ended 31 December 2019

	2018			<u>Total</u> HK\$ million
	<u>Level 1</u> HK\$ million	<u>Level 2</u> HK\$ million	<u>Level 3</u> HK\$ million	
Financial assets				
<i>Financial assets at FVTPL</i>				
Unlisted club debenture	–	1	–	1
Fund investment	–	–	294	294
Total	–	1	294	295
Financial liability				
<i>Derivative under hedge accounting</i>				
Cross currency swap	–	26	–	26

(c) Reconciliation of Level 3 fair value measurement of financial asset

	<u>Fund investment</u> HK\$ million
As at 1 January 2018	–
Transfer into Level 3	162
Addition	149
Loss recognised in profit or loss	(17)
As at 31 December 2018	294
Addition	60
Gain recognised in profit or loss	12
As at 31 December 2019	366

There were no transfers between these three levels during the year.

The unrealised fair value gain of HK\$12 million (2018: unrealised fair value loss of HK\$17 million) relating to fund investment at fair value through profits or loss is included in other gains and losses.

(d) Valuation techniques and inputs used in fair value measurements

Cross currency swaps are measured using discounted cash flow methodology based on observable spot and forward exchange rates as well as the yield curves of the respective currencies taking into account the credit risk of the counterparties and of the Group as appropriate.

Fund investment is measured with reference to the fair value of underlying assets and liabilities held under the fund as at the end of the reporting period.

Financial Risk Management (Continued)

For the year ended 31 December 2019

(e) Valuation process of Level 3 fair value measurements of financial assets

At the end of the reporting period, the management of the Group obtains from the fund manager the valuation techniques and inputs for Level 3 fair value measurements in relation to the fund investment and its underlying assets and liabilities. Where there is a material change in the fair value of the fund investment, the causes of the fluctuations will be reported to the Directors of the Company.

5. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less time deposits, cash and cash equivalents.

The management reviews the Group's net debt to equity ratio regularly and adjusts the ratio through the payment of dividends, the issue of new share or debt, the repurchase of shares and the redemption of existing debt.

The net debt to equity ratio at the year end was as follows:

	<u>2019</u> <i>HK\$ million</i>	<u>2018</u> <i>HK\$ million</i>
Unsecured bank loans	2,001	1,532
Unsecured fixed rate notes	<u>10,528</u>	<u>4,790</u>
Borrowings	12,529	6,322
Less: Time deposits	(5,735)	(748)
Cash and cash equivalents	<u>(3,597)</u>	<u>(2,069)</u>
Net debt	<u><u>3,197</u></u>	<u><u>3,505</u></u>
Equity attributable to owners of the Company	<u><u>77,650</u></u>	<u><u>74,431</u></u>
Net debt to equity	<u><u>4.1%</u></u>	<u><u>4.7%</u></u>

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.