A Balanced Dual-Engine Business

ANNUAL REPORT 2019

Hysan 希慎

stock code 00014

VISION

To be the premier property company in its market of choice.

MISSION

Provide our stakeholders with sustainable and outstanding returns from a property portfolio which is strategically planned and managed by passionate, responsible and forward-looking professionals.

VALUES

L	E	E	G	A	R	D	E	N	S
LEADERSHIP	EXCELLENCE	EMPOWERMENT	GOOD CITIZENSHIP	ACCOUNTABILITY	RESPECT	DRIVING/DRIVEN	ENTREPRENEURSHIP	NETWORKING	SUSTAINABILITY

We welcome stakeholders' feedback on this Report. Please share your thoughts at **hysan@hysan.com.hk**

In an effort to reduce consumption of resources due to printing and distributing hard copies, the Hysan Sustainability Report has been prepared for electronic distribution and is available for public viewing on Hysan Development's website (www.hysan.com.hk). Limited copies are printed and distributed, primarily to our shareholders.

A summary of the Sustainability Report is provided on pages 98 to 101 of this Annual Report.

Scan QR code to read the Sustainability Report 2019

2019 was an exceptionally challenging year for Hong Kong and Hysan, both buffeted by global headwinds and domestic factors. Through the difficult times, Hysan delivered swift, positive solutions and support to manage the impact on our tenants and community. We believe our balanced dual-engine portfolio with the synergies generated by the two main segments, Office and Retail, helped Hysan remain resilient to the unexpected disruptions and impacts.

Looking ahead, we will maintain our close working relationships and foster new partnerships with existing and potential stakeholders to navigate through the turbulence. As a strong reputable property investor, developer and manager, we have the foundation to continue our growth.

CONTENTS

1 OVERVIEW
Page 8

2 BUSINESS PERFORMANCE
Page 22

3 CORPORATE GOVERNANCE
Page 38

4 FINANCIAL STATEMENTS, VALUATION AND OTHER INFORMATION
Page 109

Synergies from a Balanced Dual-Engine Portfolio

Broadened customer base supports dynamic growth of

DIVERSE RETAIL OFFERINGS

Hysan's **balanced dual-engine business** has provided a stable platform for the company. The office portfolio accounted for around the same turnover as the retail portfolio in 2019.

The demand from an increasingly **discerning office clientele** continues to drive a more **diverse retail offering**. The combination of a **balanced portfolio** with **synergies generated** by the two main segments will continue to inspire and power our business.

Beyond having an optimal tenant mix in buildings, Hysan's Lee Gardens is a vibrant community of people and activities ...

Wide range of lifestyle experiences attracts

DISCERNING OFFICE TENANTS

A Vibrant Community

The geographical advantage and historical nature of Lee Gardens create an ideal backdrop for our dual-engine model. Over the years, Hysan actively carried out asset enhancements, re-developments, neighbourhood curation and tenant mix changes, as well as community events and activities. Lee Gardens is now a premier destination for all ages and all walks of life.

Community Highlights in 2019

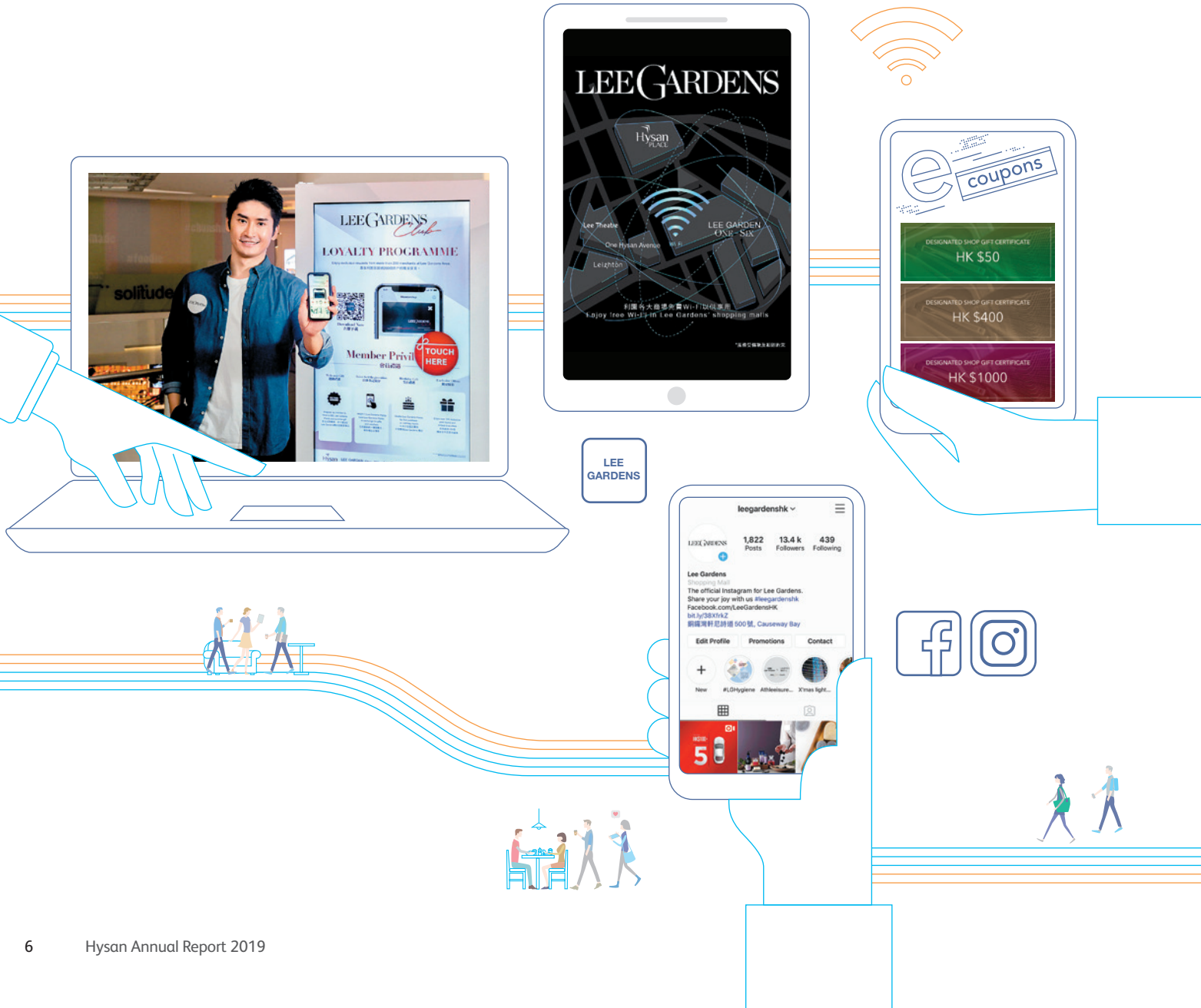
Hysan unveiled Bizhouse, a concept that combines living and working in a regenerated low-rise building. We also started Hysan's Art Programme to promote local artists. We launched Urban Sky which transformed an under-used space into a popular performing venue.

Strong promotions through general shoppers' campaigns and events continued to help our tenants attract more customers. Within the office portfolio, flex space has added diversity to our business platform, further sharpening our retail and service offerings.

Business Technology Applications

We are gaining greater insights into our visitors' demographics and traffic patterns through our area-wide Wifi and IoT. We use data analytics and AI to inform our strategy in the world of digital economy. The growth in the number of our social media followers and our interaction with them help us better understand and predict their preferences.

Technology also enhances our daily operations directly. We are consolidating our two loyalty programmes into a single operating platform to improve efficiency and user-friendliness. In addition, we unveiled our Electronic Gift Coupon system in 2019.



Strengthening Sustainability

Long term sustainable thinking comes naturally to us, a company with strong roots in Causeway Bay. Our Board has established a Sustainability Committee to oversee environmental, social and governance issues. We are in a good position to further integrate sustainability initiatives with clear targets into our strategic plans.

10 Key Facts
10 Our Portfolio
11 Value Creation
12 Our Assets
14 2019 Performance at a Glance
18 Chairman's Statement

OVERVIEW 1

Key Facts

OUR PORTFOLIO

Hysan's investment portfolio is set predominantly in Lee Gardens, a unique part of Hong Kong's renowned commercial heart in Causeway Bay. Our ownership concentration makes us stand out, as it magnifies and drives synergies amongst our tenants and a vibrant community.

Within our approximately 4.5 million square feet of retail, office and residential tenant space, we strive to become partners with our tenants. By understanding and connecting our tenants' and our customers' needs, we create a sustainable ecosystem.

VALUE CREATION

Financial Achievements:

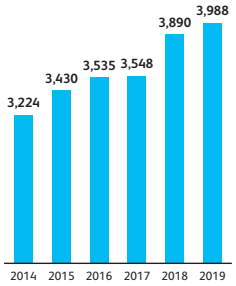
- Steady and progressive total return
- Strong Balance Sheet

Active Management

including tenant mix improvement increases yields, while Asset Enhancement brings more immediate as well as longer term gains to generate value in the company

Turnover

2014-2019 (HK$ million)

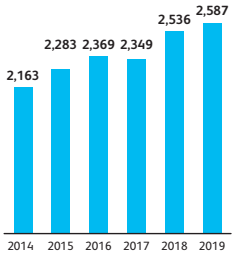


Financial Achievements

increase earnings

Recurring Underlying Profit

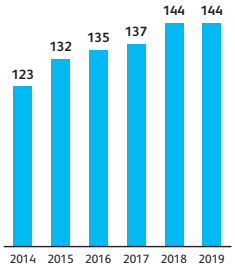
2014-2019 (HK$ million)



Dividends per Share

provide steady growth

2014-2019 (HK cents)



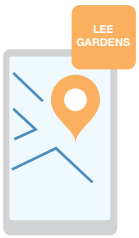
Supported by Strong Underlying Non-Financial Achievements:

Environment

Minimize our impact on the environment, and achieve higher efficiency at the same time

Community

Make positive contributions to communities where we operate



Employees

Create working environment for talent to thrive

Governance

Strong governance is the heart of long-term sustainable performance

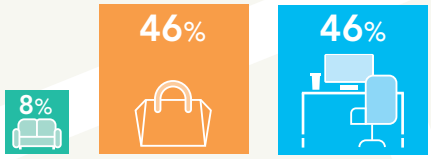
OUR ASSETS

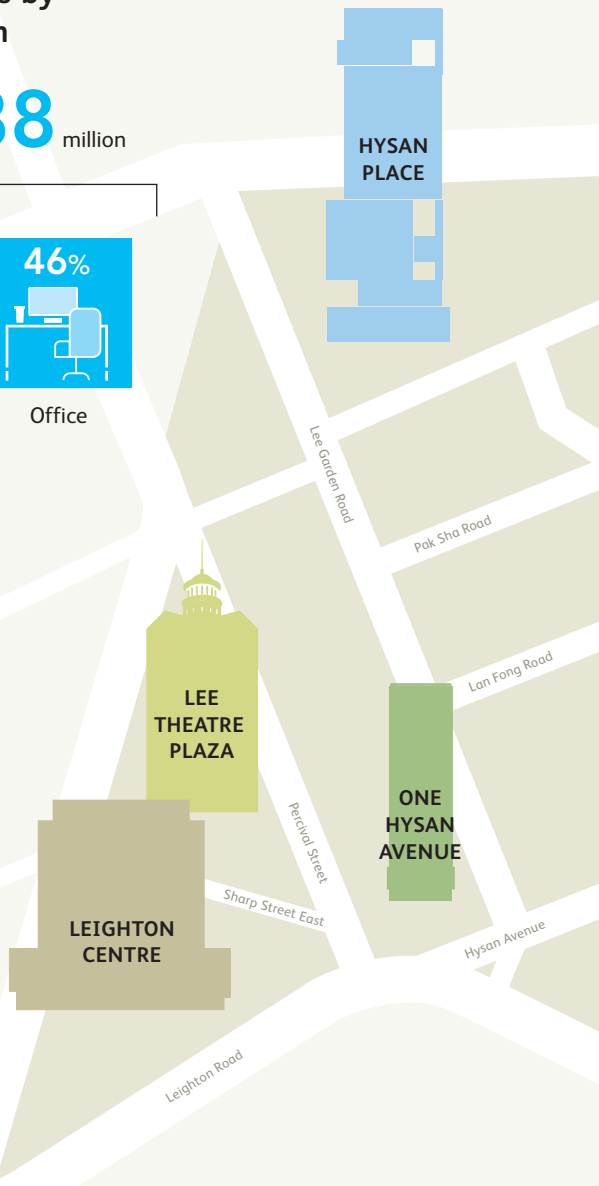
Investment Properties by Gross Floor Area

Total Gross Floor Area **4.5** million sq. ft. (approx.)

Investment Properties by Turnover Contribution

Turnover HK$ **3,988** million





Hysan Place

Completed 2012

Greenest commercial building and trendiest shopping centre in town

Approx. Gross Floor Area	Office	Retail
716,000 ft²	63%	37%

Number of Floors	Parking Spaces
40	66

Lee Theatre Plaza

Completed 1994 / Lower zone renovated 2013

One of Hong Kong's best-loved shopping and dining complexes

Approx. Gross Floor Area	Retail
314,000 ft²	100%

Number of Floors
26

Leighton Centre

Completed 1977 / Renovated 2011

Popular office complex amongst sports and lifestyle shops

Approx. Gross Floor Area	Office	Retail
430,000 ft²	75%	25%

Number of Floors	Parking Spaces
28	321

Lee Garden One

Completed 1997

Home to international corporations and premium brands

Approx. Gross Floor Area	Office	Retail
903,000 ft²	78%	22%

Number of Floors	Parking Spaces
53	200

Bamboo Grove

Completed 1985 / Renovated 2019

Quality international living in Mid-Levels

Approx. Gross Floor Area	Number of Units	Parking Spaces
691,000 ft²	345	436

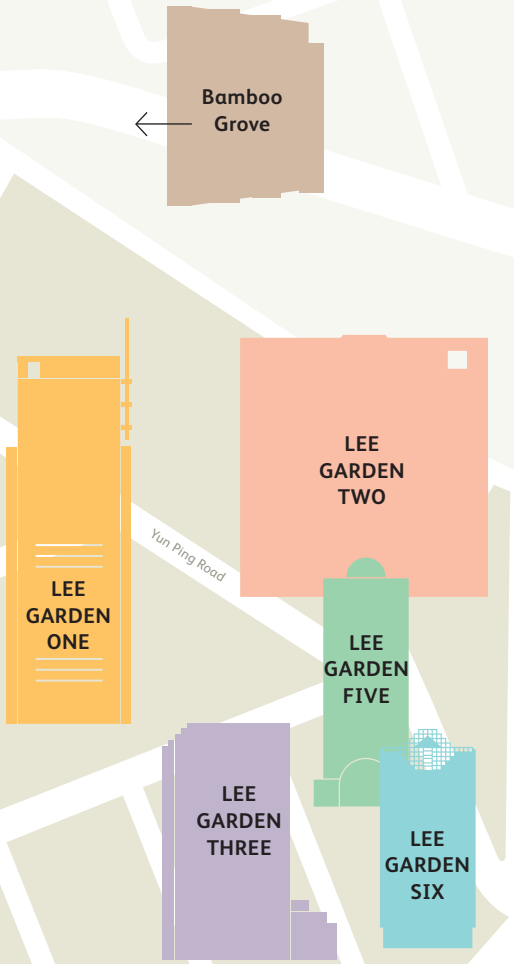
Lee Garden Two

Completed 1992 / Retail podium renovated 2019

Spacious offices and home to children's concept floors

Approx. Gross Floor Area	Office	Retail
621,000 ft²	75%	25%

Number of Floors	Parking Spaces
34	167



Lee Garden Three

Completed 2017

Newest commercial address in Lee Gardens

Approx. Gross Floor Area	Office	Retail
467,000 ft²	83%	17%

Number of Floors	Parking Spaces
32	201

Lee Garden Five

Completed 1989 / Renovated 2009

An office and retail complex at one of Hong Kong's most prestigious commercial areas

Approx. Gross Floor Area	Office	Retail
132,000 ft²	88%	12%

Number of Floors
25

One Hysan Avenue

Completed 1976 / Renovated 2011

Efficient office and retail building in prime site

Approx. Gross Floor Area	Office	Retail
169,000 ft²	77%	23%

Number of Floors
26

Lee Garden Six

Completed 1988 / Renovated 2004

Convenient office and retail location

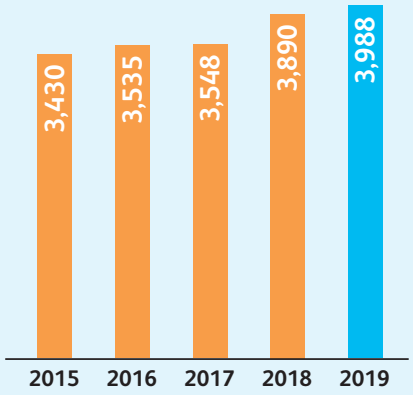
Approx. Gross Floor Area	Office	Retail
80,000 ft²	91%	9%

Number of Floors
24

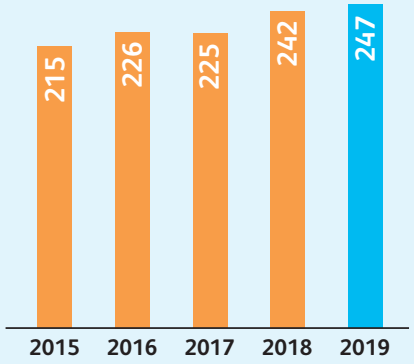
2019 Performance at a Glance

FINANCIAL PERFORMANCE

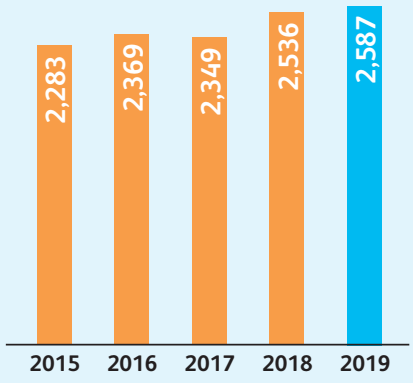
Turnover HK$3,988m ↑2.5%



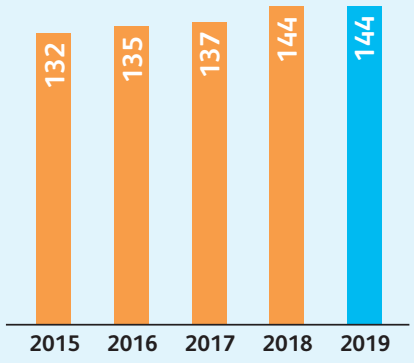
Recurring Underlying Earnings per Share HK247cents ↑2.1%



Recurring Underlying Profit HK$2,587m ↑2.0%



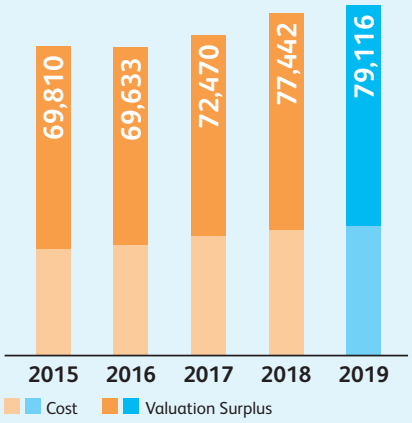
Dividends per Share HK144cents



Property Value

HK$79,116m

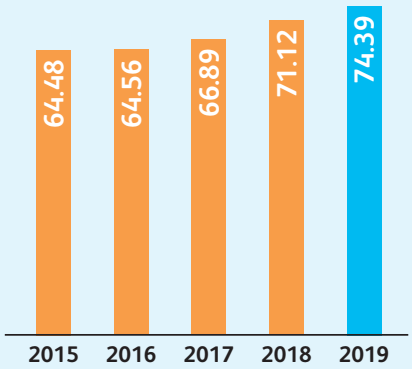
↑2.2%



Net Asset Value per Share

HK$74.39

↑4.6%



FINANCIAL PRUDENCE

Net Interest Coverage (Note 1)

17.0 times
(2018: 18.1 times)

Net Debt to Equity (Note 2)

4.1%
(31 Dec 2018: 4.7%)

Effective Interest Rate

3.4%
(2018: 3.4%)

Average Debt Maturity

6.6 years
(31 Dec 2018: 3.9 years)

Fixed Rate Debt

84.0%
(31 Dec 2018: 75.5%)

Capital Market Issuances

84.0%
(31 Dec 2018: 75.5%)

Credit Ratings

Moody's: **A3**

Fitch: **A-**

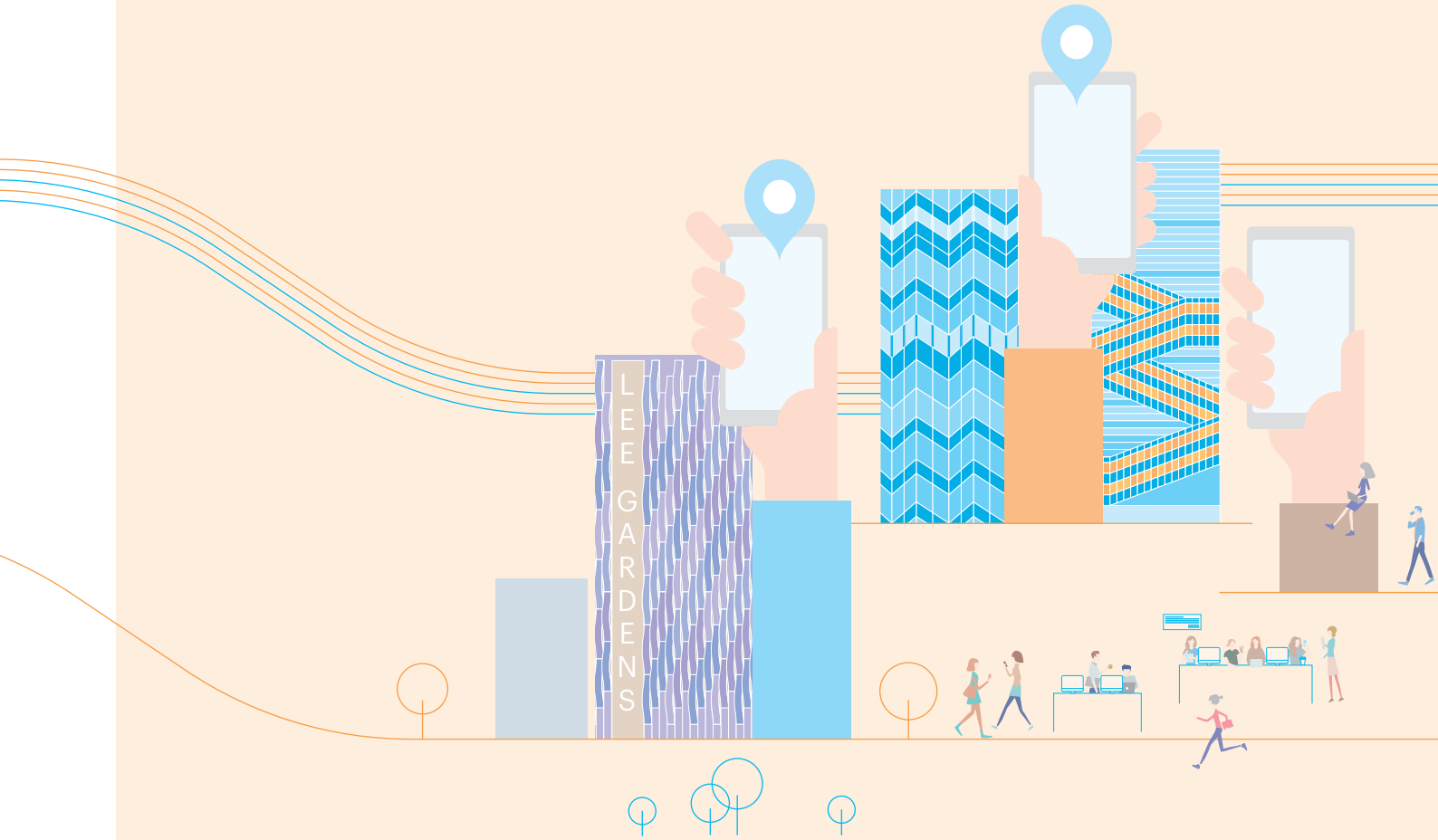
Standard and Poor's: **BBB+**

Notes:
1. Net Interest Coverage is defined as gross profit less administrative expenses before depreciation divided by net interest expenses
2. Net Debt to Equity is defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds

2019 Performance at a Glance

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RECOGNITIONS

- "AA" Rating: Hang Seng Corporate Sustainability Index
- "A" Rating: MSCI ESG Ratings assessment
- Constituent member: FTSE4Good Index Series
- Gold level under the United States Green Building Council's LEED (Core and Shell) and Final Platinum rating under BEAM Plus (New Buildings) for Lee Garden Three
- Silver Award for Volunteer Service (Organization) under the Steering Committee on Promotion of Volunteer Service of Hong Kong Social Welfare Department



- Silver Award (Traditional Annual Report in Real Estate Development/SVC: Various & Multi-Use) in MerComm, Inc.'s 2019 International ARC Awards
- Best Annual Report (Mid Cap) in the Hong Kong Investor Relations Association's Investors Relations Awards 2019
- Gold Award (Non-Hang Seng Index – Large Market Capitalization Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2019
- Honourable Mention in the Hong Kong Management Association's 2019 Best Annual Reports Awards

Hang Seng Corporate Sustainability Index Series Member 2019-2020

FTSE4Good

PLATINUM 白金級

義工運動 Volunteer MOVEMENT

ARC AWARDS INTERNATIONAL XXXIII 2019 WINNER

hkira IR Awards 2019

CPA Hong Kong Institute of Certified Public Accountants 香港會計師公會

MSCI ESG RATINGS A

CCC | B | BB | BBB | A | AA | AAA

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Chairman's Statement

Hysan saw a 2.5% increase in its 2019 turnover and a 2.0% improvement in its Recurring Underlying Profit. A robust first half helped ease the impact of a negative second half. Rental reversions for our office, retail and residential portfolios remained healthy, while occupancies were satisfactory.

Impact from Different Fronts

Global uncertainties together with continued U.S.-China tensions were among the external factors negatively affecting Hong Kong's general economic well-being in 2019. On the domestic front, social unrest throughout the second half of the year had an immediate adverse impact on the economy and parts of Hysan's business. The sharp drop in spending by a drastically reduced number of visitors to Hong Kong was further exacerbated by a fall in local consumption arising from intermittent closure of shops and restaurants brought on by the social unrest. The retail sector, particularly cosmetics and certain popular brands favoured by mainland visitors, as well as the catering sector, were much adversely affected by the turmoil. Hong Kong's retail sales saw a full year decline of 11% as compared to 2018. Estimated sales of Hysan's retail tenants mirrored those of Hong Kong, sharply decreasing from July onwards.

Managing the Crisis

Through these difficult times, Hysan's management team stepped up its efforts to provide a safe and secure environment for the Company's staff, tenants and shoppers. The team delivered swift, proactive solutions and support to manage the impact on our retail and office tenants. The relationship built over the years through Hysan's community-building efforts were clearly evident as all stakeholders worked together during the crisis.

Synergies from a Balanced Portfolio

Hysan's balanced dual-engine business has provided a stable platform for the Company. The retail business, which by its nature is more volatile, is anchored by a more stable office portfolio. Hysan's office portfolio accounted for the same turnover, around 46%, as the retail portfolio.

Many brands, and in particular premium brands, are likely to consider consolidation after years of expansion. Lee Gardens' ability to attract and retain brands is a testament to our area curation and strong partnerships with our tenants. Apart from our premium brands, Lee Gardens has a portfolio of retail, services and food and beverage outlets offering a range of price points for locals, tourists and different age groups. The diverse range of services, shops and restaurants form the backbone of our vibrant business community. The completion of Lee Garden Three saw local and multinational companies, including global financial institutions, recognize the area's rich offerings set in a vibrant neighbourhood, with the added convenience of Causeway Bay which is a major transport hub. The demand from an increasingly discerning office clientele will continue to drive a broader and more diverse retail offering. This positive and self-sustaining cycle of supply and demand will continue to inspire and power our business. The combination of a balanced portfolio with the synergies generated by the two main segments should help Hysan remain more resilient to unexpected disruptions and impacts.

Flex Space in Lee Gardens

Flex space or co-work have added youth and cultural diversity to our business platform, further sharpening our retail and service offerings. Although the co-working industry is facing inevitable consolidation and only those with proven business models are expected to survive, we believe this type of business model will remain a major part of the office ecosystem. Causeway Bay, and more specifically Lee Gardens remains an ideal venue for corporate clients and entrepreneurs who require convenience and vibrancy in their work environment in addition to general operational flexibility.

A Vibrant Community

Lee Gardens is located in the middle of Hong Kong Island's commercial foothills and houses an eclectic mix of low-rise and modern tower blocks. This geographical advantage and its historical nature complement the dual-engine model. The residents, shoppers, workers and businesses form the basis of a community that has grown significantly since Lee Hysan bought the hill, now Lee Gardens, close to a hundred years ago. Over the years, the Company actively carried out asset enhancements, re-developments, neighbourhood curation, and tenant mix changes, as well as community events and activities. Lee Gardens is now a premier destination for all ages and all walks of life, including locals, new Hong Kong migrants, as well as tourists.

At the end of 2019, Hysan unveiled Bizhouse, a concept that combines living and working in a regenerated low-rise building situated in a neighbourhood buzzing with character. Other changes, many in cooperation with nearby landlords and the Lee Gardens Association, have transformed the area's streets into a unique, dynamic and stylish community of old Hong Kong mixed with the latest trends that reflect the needs and interests of today.

Those who come to Lee Gardens to work, play and shop help bring the community to life. Most of our regulars are our long-standing loyalty club members. We are in the process of consolidating our two loyalty programmes into a single platform. This move will ensure that all operations, including a new mobile app, points systems for rewards, and club member communications, will be digital, hence more streamlined and user-friendly. We also look forward to unveiling new facilities for VIP-level club members in Q1 2020.

Throughout 2019, and especially in the second half of the year, we focused our efforts on supporting general shoppers' campaigns by launching strong promotions to help our tenants attract more customers. One of our target groups is children and their parents. A children's academy with a curriculum of life skills classes is in the pipeline. The aim of such an initiative is to form a long-term relationship and connection with youngsters and their families.

Strengthening Sustainability

Hysan's roots in Causeway Bay can be traced back almost 100 years. Long-term sustainable thinking comes naturally to us. Our stakeholders' demand for sustainability in the community has grown significantly in recent years. Over the past decade, the Group has taken the lead in the construction and operation of green buildings. Our Board has decided to establish a Sustainability Committee to oversee environmental, social and governance issues, supported by the management's Sustainability Executive Committee and Task Force. We are in a good position to further integrate sustainability initiatives with clear and measurable targets into our medium- to long-term plans.

Dividends

The Board of Directors is pleased to declare a second interim dividend of HK117 cents per share (2018: HK117 cents). Together with the first interim dividend of HK27 cents per share (2018: HK27 cents), the total distribution is HK144 cents per share (2018: HK144 cents). The dividend will be payable in cash.

Appreciation and Outlook

2019 was an exceptionally challenging year and I would like to give my heartfelt thanks to the management team, as well as our front-line colleagues, for their hard work and dedication. I would also like to thank my fellow board members for their support and advice. My special thanks to Professor Lau Lawrence Juen-Yee, who is stepping down from the Board as an independent non-executive Director upon the conclusion of our annual general meeting in May 2020. I am grateful for his wise counsel and diligent work and for all his contribution to the Board.

Hong Kong's economic outlook in 2020 is clouded by the global headwinds and domestic factors, including the outbreak of COVID-19. Hysan will maintain close working relationships with our tenants and continue our engagement with the local community to navigate through the turbulent times. The Group will also continue to explore opportunities within our core area and beyond.

Lee Irene Yun-Lien
Chairman

Hong Kong, 20 February 2020

24 Management's Discussion and Analysis

24 Strategy and Review of Results

25 Review of Operations

29 Financial Review

32 Treasury Policy

2 BUSINESS PERFORMANCE

Management's Discussion and Analysis

STRATEGY

Hysan's mission clearly states that the Group strives to provide its stakeholders with sustainable and outstanding returns from its property portfolio, which is located predominantly in Hong Kong's premier commercial district of Causeway Bay. The Lee Gardens area of Causeway Bay is Hysan's home base and will remain the Group's focus. Hysan is also active in seeking other investment opportunities beyond its core geographical area.

Hysan enhances its portfolio's value through asset improvement, repositioning and redevelopment. Due to the nature of its portfolio, Hysan also actively curates the content of the Lee Gardens community for the benefit of the tenants, customers and other stakeholders.

REVIEW OF RESULTS

	2019 HK$ million	2018 HK$ million	Change
Turnover	**3,988**	3,890	+2.5%
Recurring Underlying Profit	**2,587**	2,536	+2.0%
Underlying Profit	**2,587**	2,536	+2.0%
Reported Profit	**4,845**	6,033	-19.7%

The Group's turnover in 2019 was HK$3,988 million, an increase of 2.5% from HK$3,890 million in 2018. These results were mainly attributable to a good performance in the first half of the year partially offset by the impact of strong economic headwinds in the second half of the year.

Recurring Underlying Profit, our key leasing business performance indicator, and Underlying Profit, were both HK$2,587 million in 2019 (both up 2.0% from HK$2,536 million in 2018), reflecting positive rental reversion from our portfolio. Basic earnings per share based on Recurring Underlying Profit was HK247 cents (2018: HK242 cents), up 2.1%.

The Group's Reported Profit for 2019 was HK$4,845 million (2018: HK$6,033 million). This included a fair value gain on the Group's investment properties' valuation of HK$792 million (2018: HK$3,532 million) and the share of fair value gain of investment properties on our investment in associates of HK$1,528 million (2018: HK$96 million). These fair value gains reflected the rental outlook after taking into consideration (i) the completion of asset enhancement projects and (ii) economic outlook.

As at 31 December 2019, the valuation of the Group's investment property portfolio in Hong Kong increased by 2.2% to HK$79,116 million (2018: HK$77,442 million). The capitalization rates used in valuing each portfolio remained unchanged from those used as at 31 December 2018.

REVIEW OF OPERATIONS

Hysan's property portfolio is comprised of three sectors: retail, office and residential. The total floor area of the entire portfolio is approximately 4.5 million square feet. Around 55% of the Group's investment portfolio by gross floor area were office properties, while around 30% were retail properties as at 31 December 2019. These properties are located in Lee Gardens, Causeway Bay. Approximately 15% were residential properties, mainly represented by Bamboo Grove in Mid-Levels.

The turnover of each sector is shown as below:

	2019 HK$ million	2018 HK$ million	Change	Contribution to Turnover **2019**	Contribution to Turnover 2018
Office sector	**1,833**	1,688	+8.6%	**46%**	43%
Retail sector	**1,836**	1,923	-4.5%	**46%**	50%
Residential sector	**319**	279	+14.3%	**8%**	7%
	3,988	3,890	+2.5%	**100%**	100%

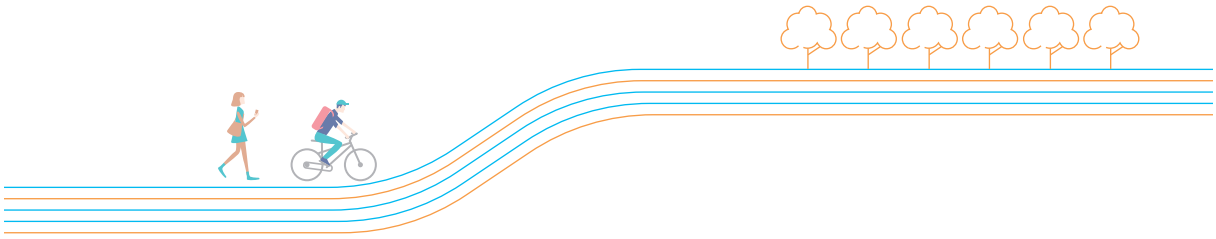
The office sector now contributes around the same amount to the overall portfolio turnover as the retail sector. Office contribution grew significantly in 2018 after the completion of Lee Garden Three, a predominantly office building. The office sector achieved healthy positive rental reversion in 2019.

Key Performance Indicators

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

Key Performance Indicators	Definition	Business Performance Portfolio	Business Performance **2019**	Business Performance 2018
Turnover Growth	Rental revenue in current year vs that in last year	Office	**+8.6%**	+24.2%
		Retail	**-4.5%**	-0.1%
		Residential	**+14.3%**	+5.7%
Occupancy Rate	Percentage of total lettable area leased / total lettable area of each portfolio at year end	Office	**98%**	97%
		Retail	**96%**	98%
		Residential	**87%**	88%
Property Expenses Ratio	Property expenses divided by turnover	N/A	**13.4%**	13.4%

Note: No changes have been made to the source data or calculation methods used when compared to 2018.

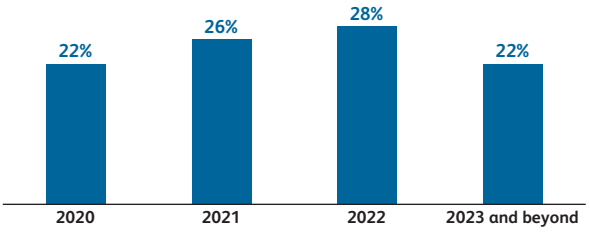


Office Portfolio

The Group's office portfolio turnover rose 8.6% to HK$1,833 million (2018: HK$1,688 million), including turnover rent of HK$7 million (2018: nil). The office portfolio's occupancy was 98% as at 31 December 2019 (31 December 2018: 97%).

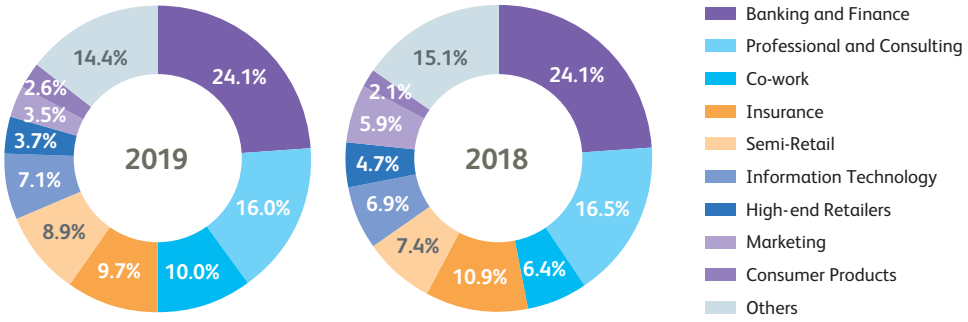
This performance reflected overall positive rental reversion on renewals, rent review, new lettings, and full-year contributions from Lee Garden Three.

Office Lease Expiry Profile by Area Occupied (As at 31 December 2019)



With the addition of Lee Garden Three, Banking and Finance has become the largest tenant sector, accounting for almost 25% of area occupied within the office portfolio. Although Professional and Consulting remained the second largest tenant sector in area used, Co-work/flex spaces overtook Insurance as the third largest sector during the year. Shared workspace as a flexible option, both for major corporations and also for entrepreneurial entities, is more necessary than ever during times of economic uncertainty and modern shared economy. We believe that we have allocated the right amount of space for this sector, attracting millennial users whose lifestyle needs will continue to help refine our retail tenant mix. Being familiar with the full range of facilities and services in the Lee Gardens community, these flex space users also rate our office space highly when they come to consider a larger and more permanent office space.

Office Tenant Profile by Area Occupied as at Year-end

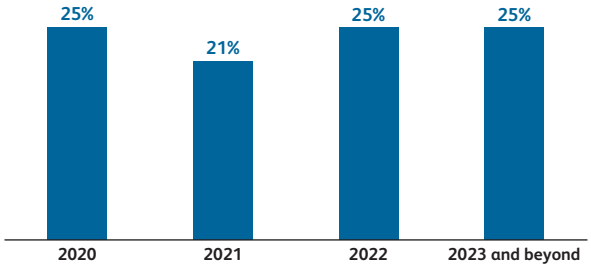


Retail Portfolio

The Group's retail portfolio turnover decreased by 4.5% to HK$1,836 million (2018: HK$1,923 million), including turnover rent contribution of HK$66 million (2018: HK$81 million). The portfolio's occupancy was 96%, as at 31 December 2019 (31 December 2018: 98%).

In the second half of 2019, shopping mall operations in Hong Kong were intermittently disrupted by various social events. The estimated drop in Hysan's overall tenant sales year-on-year was on par with the decline of Hong Kong's overall retail sales. Hysan's overall rental reversion in renewals, rent review and new lettings remained positive in 2019.

Retail Lease Expiry Profile by Area Occupied (As at 31 December 2019)



During the year, as a result of continual tenant mix curation, 35 new brands were added and 27 shops were refreshed with a new design. This reflected our efforts to tackle the structural changes in the retail sector.

Residential Portfolio

The residential portfolio comprises mainly units in Kennedy Road's Bamboo Grove. The sector saw an increase of 14.3% in turnover to HK$319 million (2018: HK$279 million). The occupancy of the sector was at 87% as at 31 December 2019 (31 December 2018: 88%). A range of Bamboo Grove units were renovated, including penthouses, which were all well received by the market. Lobby renovations were completed in 2019, further enhancing the buildings' desirability. Lift modernization works were also ongoing.

The rental reversion was overall positive in renewals, rent review and new lettings in this sector.

Tai Po Luxury Residential Project

The major design of Tai Po Residential Development including the architecture, structure, building services, and typical interior design has been completed. Landscape and clubhouse design are making good progress. Foundation and basement works are largely completed, and superstructure works have started recently. Construction work is expected to complete in 2021, subject to government approval.

Loyalty Clubs and Marketing Events

Our loyalty club, Lee Gardens Plus, has changed its name to Lee Gardens Club, in anticipation of an integration with our VIP club, Club Avenue, into a single operating platform in 2020. There will be points-earning features for members of all levels. In conjunction with the forthcoming integration, a new Lee Gardens Club app was launched in October 2019. We also unveiled the Electronic Gift Coupon (EGC) system, which essentially replaced old-fashioned paper coupons. More than 20,000 transactions were conducted using EGCs, providing a successful multiplier effect for our retail tenants.

More than 160 marketing events were conducted in collaboration with tenants in 2019, representing around a 25% growth from the year before. A number of these events were unique, being either the Hong Kong-leg of global events, or first-time-in-Hong Kong shows or pop-ups. The themes ranged from digital "retailtainment" to health and lifestyle and festive offerings.

Business Technology Applications

In addition to the Lee Gardens Club app and the EGC launch, our social media activities also gained traction, with double and triple digit percentage growth in our WeChat and Instagram followers respectively. This combination of customer relationship channels helped us learn more about our customers' individual preferences, hobbies and interests. Our area-wide Wifi and IoT also provided a picture of the demographics of our visitors, as well as the traffic patterns of their visits. We are devoting more resources and efforts to gain greater insight into these trends so that we can improve foresight and planning for our operations. In 2020, we plan to further use data analytics and AI, as well as other platforms, to strengthen our understanding of the world of digital economy. Our ultimate business technology aims are to improve operational efficiency, make data-driven decisions, and create value, with strong consideration given to data privacy.

Community Activities

Hysan continues to play a significant role in the development of the Causeway Bay community in general, and the Lee Gardens community in particular. Our model focuses on curating a community that is authentic, sustainable, engaging, and technologically-minded. Arts and culture, health and wellness, families and children, as well as living and working are among our major themes.

Although some of the higher profile area-wide events in 2019 had to be cancelled or postponed due to safety and traffic concerns caused by social conflicts, Hysan still supported Lee Gardens Association in hosting several major street events during the year, entertaining tens of thousands with games and performances. The brand new Urban Sky also became a popular venue for arts and culture events at Hysan Place. Hysan's Art Programme, curated by our management trainees who are mentored by our project and design teams, made its debut with artwork adorning Hysan Place and Lee Garden One. Towards the end of the year, Bizhouse at Pak Sha Road unveiled the concept of combined living and working in comfortable Causeway Bay spaces. For details about these and other community activities and projects supported by Hysan in 2019, please refer to our Sustainability Report.

FINANCIAL REVIEW

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

Operating Costs

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

The Group's operating costs to turnover ratio increased from 19.3% in 2018 to 20.2% in 2019, largely reflecting the full operation of Lee Garden Three during the year.

Finance Costs

Finance costs increased to HK$313 million, compared to HK$222 million in 2018, mainly due to additional borrowings during the year. The effective interest rate for the year was 3.4%, which is the same as 2018.

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

Revaluation of Investment Properties

As at 31 December 2019, the Group's investment real estate portfolio was valued at HK$79,116 million, an increase of 2.2% from HK$77,442 million as at 31 December 2018. This valuation was carried out by Knight Frank, an independent professional valuer, on the basis of open market value. The capitalization rates used in valuing each portfolio remained unchanged from those used as at 31 December 2018.

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK$792 million (2018: HK$3,532 million) was recognized in the Group's consolidated statement of profit or loss for the year. This reflected the rental outlook after the completion of a number of asset enhancement works, but taking into account Hong Kong's economic uncertainties.

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

	2019 HK$ million	2018 HK$ million	Change
Office	**35,498**	34,159	+3.9%
Retail	**35,059**	35,102	-0.1%
Residential	**8,559**	8,181	+4.6%
	79,116	77,442	+2.2%

Investments in Associates and a Joint Venture

The Group's investments in associates mainly represent its interest in Shanghai Grand Gateway, a retail, office and residential complex, in Shanghai, China. The share of results of associates increased significantly to HK$1,733 million (2018: HK$288 million), mainly due to the Group's share of the revaluation gain (net of deferred tax) amounting to HK$1,528 million (2018: HK$96 million). The properties at Shanghai Grand Gateway were revalued at fair value by an independent professional valuer for both the years ended 31 December 2018 and 2019.

The Group's investment in a joint venture represents interests in a Tai Po residential project. The increase in carrying value represents costs incurred by the project in 2019.

Bank Deposits and Other Investments

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities.

Excluding recognition of imputed interest income on an interest-free loan to a joint venture company for a residential site development in Tai Po of HK$30 million (2018: HK$29 million), like-for-like interest income increased by 153.1% to HK$124 million (2018: HK$49 million). This increase mainly reflected higher bank deposit balances.

The Group also extended its investments beyond its core geographical area and businesses. As at 31 December 2019, these investments totalled HK$601 million (2018: HK$294 million) expanding our reach to other areas in Asia with a view to generating new sources of income and capital.

Cash Flow

Cash flow of the Group during the year is summarized below. Cash includes liquid cash and bank deposits with less than 3 months' tenor.

	2019 HK$ million	2018 HK$ million	Change
Cash generated from operations	**3,300**	3,224	+2.4%
Net advance to a joint venture company	**–**	(56)	n/m
Net borrowing	**6,287**	46	n/m
Bank deposits and other investments	**(5,065)**	211	n/m
Interest and taxation	**(316)**	(636)	-50.3%
Dividends paid and proceeds on exercise of options	**(1,630)**	(1,551)	+5.1%
Considerations for share repurchases	**(92)**	–	n/m
Capital expenditure	**(956)**	(1,203)	-20.5%
Net cash inflow	**1,528**	35	n/m

n/m: not meaningful

The Group's net cash generated from operations was HK$3,300 million (2018: HK$3,224 million), HK$76 million higher than that in 2018, reflecting the stable cash flow from our core leasing business.

Net advance to a joint venture company in 2018 amounted to HK$56 million was related to the residential site development in Tai Po.

Net borrowings amounted to HK$6,287 million, reflecting net borrowings of fixed rate notes and bank loans totalling of HK$6,290 million, as well as repayment to the non-controlling interest of a subsidiary during the year. In 2018, net borrowings were HK$46 million for the year.

Cash used in bank deposits and other investments was HK$5,065 million (2018: cash from bank deposits and other investments: HK$211 million), mainly attributable to additional deposits with a longer tenor.

The Group paid dividends of HK$1,507 million (2018: HK$1,444 million), being the 2018 second interim dividend of HK117 cents per share (2018: HK111 cents) and the 2019 first interim dividend of HK27 cents per share (2018: HK27 cents).

During the year, the Group repurchased 3 million of its own shares which would further enhance shareholders' value with an aggregate consideration of HK$92 million.

Capital Expenditure and Management

The Group is committed to enhancing the asset value of our investment property portfolio through selective asset enhancement and redevelopment. The Group has also established a portfolio-wide whole-life cycle maintenance programme as part of our ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK$956 million (2018: HK$1,203 million), including payment of the construction costs of Lee Garden Three.

TREASURY POLICY

Market Highlights

The global economy in 2019 was impacted by the U.S.-China trade tensions. The Hong Kong stock market followed global market trends and performed well in the first half of the year. However, as social conflicts became increasingly frequent from mid-June onwards, the Hong Kong stock market fell around 20% from its peak in April, reaching a trough in mid-August. The market remained volatile for the rest of the year.

In view of the relatively low inflation rate and in order to sustain the expansion of economic activity, the U.S. Federal Reserve cut the federal fund rate three times, amounting to a total of 75bps for the whole of 2019. The U.S. Federal Reserve believes that its policy is currently in a "good place" and likely to remain the same as long as current conditions persist. The "dot plot" shows little chance of a rate cut or increase in 2020.

The Hong Kong Dollar ("HKD") HIBOR rose sharply in the first half of 2019 and remained relatively high in the second half due to mega IPOs and the HKD HIBOR rising above United States Dollar ("USD") LIBOR. The 3-month HKD HIBOR decreased from 2.3% at the end of 2018 to around 1.5% at the end of February 2019, and then climbed to around 2.6% at the beginning of July, remaining high for the rest of the year. Despite the increase in the HKD HIBOR, the Hong Kong bank loans market continued to have ample liquidity. The credit margin of bank loans for companies with investment grade credit ratings slightly increased.

With uncertainties both in the macro and domestic environment, the Hong Kong economy declined notably in 2019. Private consumption and fixed investment in Hong Kong shrank from 2018 levels, while exports were also markedly down. With the continued uncertainty in the global financial markets and its impact on the economy, it is important for the Group to maintain our policy of prudent financial management.

Capital Structure Management

To ensure a healthy financial position and a suitable capital structure servicing its financing needs and sustainable growth, the Group always strives to diversify its funding sources, and to maintain an appropriate debt maturity profile relative to the overall use of funds. The Group also aims to maintain adequate liquidity, keep a low borrowing margin relative to market conditions, and adopt suitable hedging and forex management strategies.

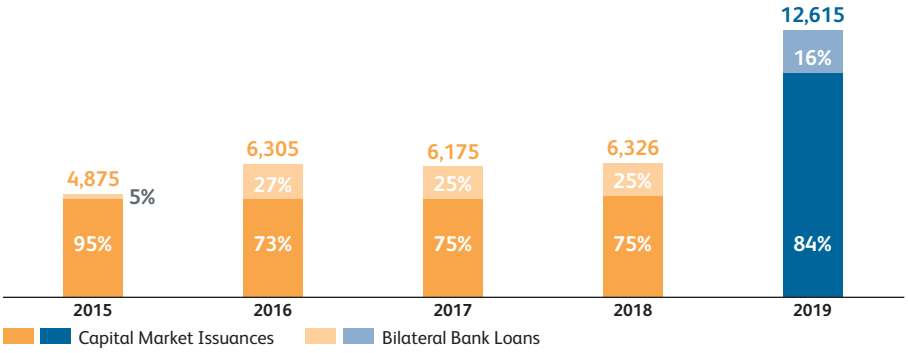
Funding Source

During the year, the Group issued new medium term notes of HK$2,200 million and US$500 million, and repaid HK$300 million maturing note. The Group also drew down US$60 million bank loan. The Group's outstanding gross debt[1] was HK$12,615 million (2018: HK$6,326 million) at year-end 2019. All the outstanding borrowings are on an unsecured basis.

As at 31 December 2019, the proportion of debts sourced from the capital market increased to 84% (2018: 75%). The Group continued to maintain long-term relationships with a number of local and overseas banks in order to diversify funding sources. At the end of 2019, thirteen local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

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

Sources of Financing at Year-end (HK$ milion)



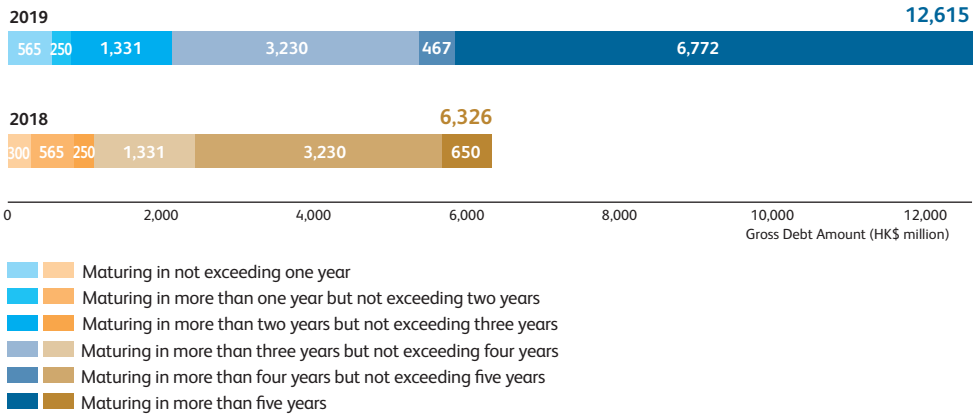
The Group strives to maintain an appropriate debt maturity profile to match with the nature of our assets and operations. As at 31 December 2019, the average maturity of debt portfolio was about 6.6 years (2018: 3.9 years), of which about HK$565 million or 4.5% of the outstanding gross debt will be due in 2020. Given our strong cash balance, debt repayment will not result in significant immediate refinancing pressure.

1. The gross debt represents the contractual principal payment obligations as at 31 December 2019. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2019, the book value of the outstanding debt of the Group was HK$12,529 million (31 December 2018: HK$6,322 million).

Maturity Profile

The graph below shows the debt maturity profile of the Group as at 31 December 2019 and 2018.

Debt Maturity Profile at 2019 and 2018 Year-end

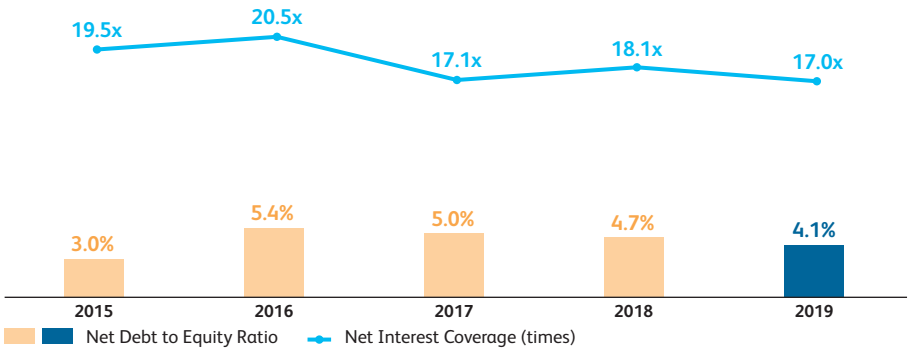


Gearing ratio and net interest coverage

The Group's gearing ratio, as measured by Net Debt to Equity ratio[1], decreased slightly from 4.7% at the end of 2018 to 4.1% at the end of 2019, because of the increase in equity attributable to owners of the Company from HK$74 billion at the end of 2018 to HK$78 billion at the end of 2019 driven by the increase in fair value of investment properties. The Group's Net Interest Coverage[2] decreased to 17.0 times for 2019 (2018: 18.1 times) due to the increase in the total debt level. The low gearing and strong ability to meet interest payments reflected the Group's resilience and capability to raise further debt for new investments and projects, if necessary.

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

Net Debt to Equity Rato and Net Interest Coverage at Year-end



1. Net Debt to Equity ratio is defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds.
2. Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expense.

Credit Rating

The Group aims at maintaining investment-grade credit ratings to ensure a stable and lower cost of financing, and to reflect our prudent financial management strategy. During the year, the Group maintained its credit ratings, reflecting the Group's strong financial position.

	2019	2018
Moody's	**A3**	A3
Fitch	**A-**	A-
Standard and Poor's	**BBB+**	BBB+

Liquidity Management

As at 31 December 2019, the Group had cash and bank deposits totalling about HK$9,332 million (2018: HK$2,817 million). In order to preserve liquidity and enhance interest yields, the Group invested HK$172 million (2018: HK$227 million) in debt securities.

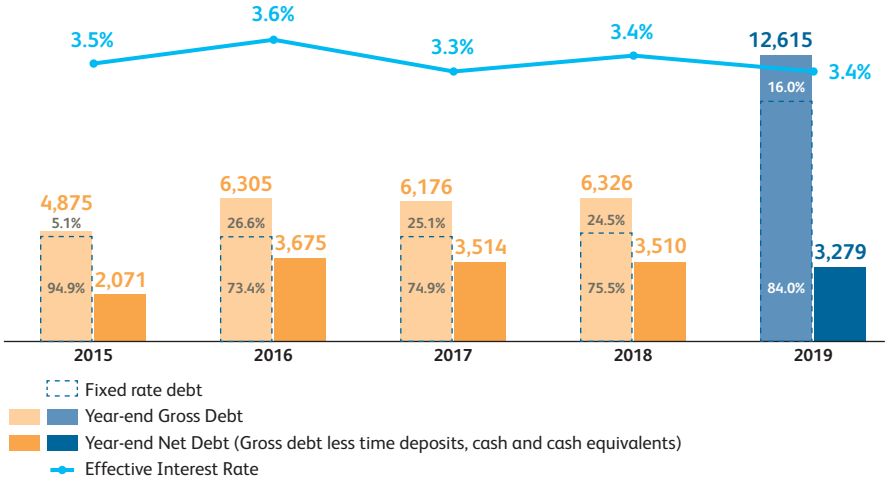
Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounted to HK$3,250 million at the end of 2019 (2018: HK$950 million), essentially allowing the Group to obtain additional liquidity as the need arises.

Interest Rate Management

The fixed rate debt ratio increased to 84% at the end 2019 from 75% at the end of 2018. As the interest rate movements become more uncertain, we believe the current fixed rate debt ratio will enable us to manage the impact from interest rate fluctuations.

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

Debt Level and Effective Interest Rate



Foreign Exchange Management

The Group aims to achieve minimal currency exposure and does not speculate in currency movements for asset and liability management. All of the Group's borrowings were denominated in HKD with the exception of certain fixed rate notes and a bank loan denominated in USD.

For the US$300 million fixed rate notes issued in January 2013 and US$500 million fixed rate notes issued in September 2019, hedges were entered to effectively convert the borrowings into HKD. A USD bank loan had also been drawn down as a natural hedge against the Group's outstanding foreign currency balances in cash, time deposits, debt securities and other financial investments amounting to US$136 million (2018: US$88 million).

Other foreign exchange exposure mainly relates to investment in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent to HK$5,199 million (2018: HK$3,715 million) or 5.4% (2018: 4.3%) of total assets.

Use of Derivatives

As at 31 December 2019, outstanding derivatives were all related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or to adjust the appropriate risk profile of the Group's treasury assets and liabilities.

Counterparty Credit Risk

All the deposits are placed with banks with strong credit ratings and the counterparty risk is controlled via prescribed limits and is monitored on a regular basis.

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

40 Corporate Governance Report
40 Our People
46 Beyond Corporate Governance Compliance
48 Our Governance Framework
50 Governance at a Glance
74 Audit and Risk Management Committee Report
78 Remuneration Committee Report
86 Nomination Committee Report
89 Sustainability Committee Report
91 Risk Management and Internal Control Report
98 Sustainability Report 2019 – Summary
102 Directors' Report

CORPORATE GOVERNANCE 3

Corporate Governance Report

OUR PEOPLE

Board of Directors

The Board is responsible for the stewardship of the Company, overseeing its conduct and affairs to create sustainable value for the benefit of its shareholders.

Executive Director

Lee Irene Yun-Lien

Chairman of the Board

Board appointment Ms. Lee was appointed as a Non-Executive Director in March 2011, Non-Executive Chairman in May 2011, and executive Chairman in March 2012. She also serves as a director of certain subsidiaries of the Group. She is aged 66.

Competencies and experience Ms. Lee leads the Group in her executive Chairman role. Ms. Lee is an independent non-executive director of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She is a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee was an executive director of Citicorp Investment Bank Limited in New York, London and Sydney, and head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney. She was also the non-executive chairman of Keybridge Capital Limited (listed on the Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited and The Myer Family Company Pty Limited, an independent non-executive director of Noble Group Limited (listed on Singapore Exchange Limited), CLP Holdings Limited and Cathay Pacific Airways Limited, and a member of the Advisory Council of JP Morgan Australia. Ms. Lee was formerly a member of the Australian Government Takeovers Panel.

She is a member of the founding Lee family, sister of Mr. Lee Anthony Hsien Pin (Non-Executive Director) and his alternate on the Board.

Qualifications Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, United Kingdom.

Committee Ms. Lee is the Chairman of the Nomination Committee.

Non-Executive Directors

Churchouse Frederick Peter

Independent Non-Executive Director

A

Board appointment Mr. Churchouse was appointed as an Independent Non-Executive Director in December 2012 and is aged 70.

Competencies and experience Mr. Churchouse has been involved in Asian securities and property investment markets for more than 30 years. Currently, he is a private investor including having his own private family office company, Portwood Company Ltd. He is an independent non-executive director of Longfor Group Holdings Limited. He is also the publisher and author of *The Churchouse Letter*. In 2004, Mr. Churchouse set up an Asian investment fund under LIM Advisors. He acted as a director of LIM Advisors and as Responsible Officer until the end of 2009. Prior to this, Mr. Churchouse worked at Morgan Stanley as a managing director and advisory director from early 1988. He acted in a variety of roles including head of regional research, regional strategist and head of regional property research. He was also a board member of Macquarie Retail Management (Asia) Limited.

Qualifications Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand.

Committee Mr. Churchouse is a member of the Audit and Risk Management Committee.

Fan Yan Hok Philip

Independent Non-Executive Director

A R N S

Board appointment Mr. Fan was appointed as an Independent Non-Executive Director in January 2010. He is aged 70.

Competencies and experience Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited and PFC Device Inc. He was previously an independent non-executive director of Guolian Securities Co., Ltd. and an independent director of Goodman Group.

Qualifications Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from the Massachusetts Institute of Technology.

Committees Mr. Fan is the Chairman of the Remuneration Committee, a member of the Audit and Risk Management Committee, the Nomination Committee and Sustainability Committee.

A Audit and Risk Management Committee
R Remuneration Committee
N Nomination Committee
S Sustainability Committee
Committee Chairman

Non-Executive Directors (continued)

Lau Lawrence Juen-Yee

Independent Non-Executive Director

N

Board appointment Professor Lau was appointed as an Independent Non-Executive Director in December 2014. He is aged 75.

Competencies and experience Professor Lau is currently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. He serves as Chairman of the Board of Directors for The Chinese University of Hong Kong (Shenzhen) Finance Institute, aka Shenzhen Finance Institute. He is also an independent non-executive director of AIA Group Limited, CNOOC Limited, Semiconductor Manufacturing International Corporation ("SMIC") and Far EasTone Telecommunications Co., Ltd. (listed on the Taiwan Stock Exchange). Professor Lau joined the faculty of the Department of Economics at Stanford University in 1966, and had a long and distinguished career there. Upon his retirement in 2006, he became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, he served as Chairman of CIC International (Hong Kong) Co., Limited, a subsidiary of China Investment Corporation. From June 2011 to December 2014, Professor Lau was a non-executive director of SMIC. Professor Lau is a member of the Currency Board Sub-committee of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, Vice-Chairman of Our Hong Kong Foundation, a member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company and a member of the Hong Kong Trade Development Council (HKTDC) Belt and Road and Greater Bay Area Committee. He was appointed a Justice of the Peace in July 2007 and awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region and served as a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Sub-committee.

Qualifications Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley.

Committee Professor Lau is a member of the Nomination Committee.

Poon Chung Yin Joseph

Independent Non-Executive Director

A R N

Board appointment Mr. Poon was appointed as an Independent Non-Executive Director in January 2010. He is aged 65.

Competencies and experience Mr. Poon is an independent non-executive director of AAC Technologies Holdings Inc., a non-executive director of Tai Chong Cheang Group, a member of Advising Committee of Asia Pacific Institute for Strategy and a board advisor of Clean Air Network. He was formerly the group managing director and deputy chief executive officer of Tai Chong Cheang Group, managing director and deputy chief executive of Hang Seng Bank Limited and held senior management posts in HSBC Group and a number of internationally renowned financial institutions. Mr. Poon was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited, a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce.

Qualifications Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors.

Committees Mr. Poon is the Chairman of the Audit and Risk Management Committee, a member of the Remuneration Committee and the Nomination Committee.

Wong Ching Ying Belinda

Independent Non-Executive Director

S

Board appointment Ms. Wong was appointed as an Independent Non-Executive Director in December 2018 and is aged 48.

Competencies and experience Ms. Wong is currently the chairman and chief executive officer of Starbucks China. Ms. Wong joined Starbucks Coffee Company in 2000 and held leadership positions across a variety of business units and geographies, including marketing director for the Asia Pacific region of Starbucks Coffee, managing director of Starbucks Singapore and general manager of Starbucks Hong Kong. Prior to joining Starbucks group in 2000, Ms. Wong was the marketing manager of McDonald's China Development Company. She is also an independent non-executive director of Television Broadcasts Limited and has extensive experience in retail, food and beverage, people, brand development and growth strategy across the Greater China and Asia Pacific regions. She serves as a member on the Faculty Advisory Board for the University of British Columbia's Sauder School of Business.

Qualifications Ms. Wong holds a Bachelor of Commerce degree with a major in finance from the University of British Columbia in Canada.

Committee Ms. Wong is a member of the Sustainability Committee.

Jebsen Hans Michael B.B.S.

Non-Executive Director

S

Board appointment Mr. Jebsen was appointed as a Non-Executive Director in 1994 and is aged 63.

Competencies and experience Mr. Jebsen is chairman of Jebsen and Company Limited as well as a director of other Jebsen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. Mr. Jebsen currently holds a number of public offices, namely, chairman of the Asian Cultural Council Hong Kong, chairman of the Advisory Council of the Business School of The Hong Kong University of Science and Technology, a trustee of World Wide Fund for Nature Hong Kong and a member of Board of Trustees of Asia Society Hong Kong Center, Hong Kong-Europe Business Council of the Hong Kong Trade Development Council as well as Advisory Board of the Hong Kong Red Cross. Since 2015, he has also been a member of the Operations Review Committee of the Independent Commission Against Corruption. Mr. Jebsen was awarded the Bronze Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001, made a Knight of the Dannebrog by receiving the Silver Cross of the Order of Dannebrog by H. M. The Queen of Denmark in 2006, was awarded the Merit Cross of the Order of the Merit of the Federal Republic of Germany in 2009, received the title "Hofjægermester" by H. M. The Queen of Denmark in January 2011 and was awarded the Knight of 1st Class of the Order of Dannebrog, Denmark in 2014.

Qualifications Mr. Jebsen was awarded Doctor of Business Administration honoris causa of The Hong Kong University of Science and Technology in 2015.

Committee Mr. Jebsen is the Chairman of the Sustainability Committee.

A Audit and Risk Management Committee | R Remuneration Committee | N Nomination Committee | S Sustainability Committee | Committee Chairman

Non-Executive Directors (continued)

Lee Anthony Hsien Pin

Non-Executive Director

A

Board appointment Mr. Lee was appointed as a Non-Executive Director in 1994 and is aged 62.

Competencies and experience Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also a non-executive director of Television Broadcasts Limited and a member of the Board of Trustees of Princeton University. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Company Limited, a substantial shareholder of the Company. He is the brother of Ms. Lee Irene Yun-Lien, Chairman.

Qualifications Mr. Lee received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong.

Committee Mr. Lee is a member of the Audit and Risk Management Committee.

Lee Chien

Non-Executive Director

N

Board appointment Mr. Lee was appointed as a Non-Executive Director in 1988 and is aged 66.

Competencies and experience Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and a number of private companies. He is a member of the founding Lee family and a director of Lee Hysan Company Limited, a substantial shareholder of the Company. Mr. Lee is a Council member of The Chinese University of Hong Kong and St. Paul's Co-educational College and a Trustee Emeritus of Stanford University. He is also a director of Stanford Health Care and CUHK Medical Centre.

Qualifications Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University.

Committee Mr. Lee is a member of the Nomination Committee.

Lee Tze Hau Michael

Non-Executive Director

R

Board appointment Mr. Lee joined the Board in January 2010, having previously served as a Director from 1990 to 2007. He is aged 58.

Competencies and experience Mr. Lee is currently a director of Oxer Limited, a private investment company. He is also an independent non-executive director of Chen Hsong Holdings Limited and a Steward of The Hong Kong Jockey Club. He was previously an independent non-executive director of Hong Kong Exchanges and Clearing Limited and Trinity Limited, and an independent non-executive director and chairman of OTC Clearing Hong Kong Limited. Mr. Lee was also a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Company Limited, a substantial shareholder of the Company.

Qualifications Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University.

Committee Mr. Lee is a member of the Remuneration Committee.

A Audit and Risk Management Committee | R Remuneration Committee | N Nomination Committee | S Sustainability Committee | ○ Committee Chairman

Senior Management

Lui Kon Wai Ricky MBA, MCIOB

Chief Operating Officer

Mr. Lui joined Hysan as the Group's Chief Operating Officer in December 2016. He assists the Chairman in translating and executing the Group's strategy and vision into operational and financial attainment. Mr. Lui also drives the Group's business growth, development and investment and serves as a director of certain Hysan subsidiaries. Mr. Lui has over 25 years of experience as a senior executive in the property industry globally, covering acquisitions, development and asset management for residential, office, retail and large scale mixed use developments in Hong Kong, mainland China and overseas. He is aged 54.

Hao Shu Yan Roger BBA (Hons), CPA, ACA, ACCA

Chief Financial Officer

Mr. Hao is responsible for the Group's financial control, treasury and information technology functions, and serves as a director of certain Hysan subsidiaries. He joined the Group in 2008. Mr. Hao accumulated extensive experience in auditing, financial management and control while holding senior positions in multinational corporations. He is aged 54.

Choy Man Wai Kitty BEcon, MSc, MBA

Director, Retail

Ms. Choy is responsible for the Group's retail portfolio and asset management strategies, and serves as a director of certain Hysan subsidiaries. She joined the Group in 2000 and prior to joining Hysan, Ms. Choy held a supervisory position at a major property development company. She is aged 47.

Lam Tze Pon Tiffany B.Soc.Sc. (Information Management)

Director, Marketing and Customer Experience

Ms. Lam is responsible for formulation of the Group's marketing strategies, leads marketing and customer experience operations, and serves as a director of certain Hysan subsidiaries. She joined the Group in January 2018. Prior to joining the Group, Ms. Lam accumulated extensive experience in retail and brand management in the premium luxury sector and the hospitality industry while holding senior positions in international retail corporations. She is aged 48.

Yip Mo Ching Jessica BSc (Surveying), MBA, MRICS, MHKIS, RPS

Director, Office and Residential

Ms. Yip is responsible for managing the office and residential portfolio of the Group, and serves as a director of certain Hysan subsidiaries. Prior to joining the Group in 2012, Ms. Yip fulfilled various roles in international consultancies, occupiers and developers. She has extensive experience in the real estate industry. She is aged 43.

BEYOND CORPORATE GOVERNANCE COMPLIANCE

Hysan embraces strong governance as the foundation for delivering its strategic objective of achieving consistent and sustainable performance. During the year of 2019, Hysan continued to comply fully with the requirements of the provisions contained in the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Furthermore, Hysan remained committed to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules.

The following are among the major areas in which Hysan's corporate governance practices exceed the Corporate Governance Code.

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	Formal Corporate Governance Guidelines* formulated since 2004 and further enhanced in 2018
✓	Formal Board of Directors Mandate* and a detailed List of Matters Reserved for the Board Decisions* provide a clear division of roles established between the Board and management. Further enhanced in 2019
✓	Formal criteria and requirements* established for Non-Executive Director appointments with expected time commitment, which was further enhanced in 2019. We issue formal appointment letters for Non-Executive Directors
✓	Board evaluation of its own performance and that of its committees by completion of questionnaires through an electronic platform. Directors' feedback was analysed and discussed in meetings
✓	Code of Ethics* applicable to all staff and Directors since 2005 and enriched in 2019 to invite joint venture partners, contractors and suppliers to demonstrate their commitment by adhering to the Code of Ethics and human rights policy in 2020
✓	A separate Whistleblowing Policy* since 2016 and further enhanced in 2019; an independent third party is engaged as the whistleblowing channel, which directly reports to the Audit and Risk Management Committee
✓	Corporate Disclosure Policy* since 2013 and further enhanced in 2019. A Disclosure Committee conducts regular assessments of inside information, and guides and promotes timely and accurately disseminated disclosure of inside information and stakeholder communications
✓	Auditor Services Policy* for the engagement of auditors. Further enhanced in 2018 and 2019
✓	Fraud handling policy and procedures to control and aid in the detection and prevention of fraud
✓	Publication of separate Corporate Governance Report, Audit and Risk Management Committee Report, Remuneration Committee Report, Nomination Committee Report, Sustainability Committee Report and Risk Management and Internal Control Report

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	More than 20 business days' notice for the AGMs, which include a detailed business review
✓	All voting at AGMs conducted by poll since 2004
✓	Early announcement of audited financial results within 2 months and publication of Annual Report within 3 months after the financial year-end
✓	Continuous enhancement of shareholder communications, including introduction of shareholders' visits since 2016
✓	Adopted 10% limit of and a discount of not more than 10% on the share issue price to issue additional shares under general mandate since 2018 AGM
✓	Arrangements have been made since December 2015 to ascertain shareholders' preferences as to the means of receiving corporate communications, with the aim of protecting the environment and enhancing the use of the Group's corporate website as a platform for shareholder communications
✓	Proactive invitation to major nominee companies by Hysan to forward communication materials to the ultimate beneficial shareholders at the Group's expense
✓	Confirmation from senior management to the Audit and Risk Management Committee as verification compliance
✓	Additional assurance from Internal Audit on the review of continuing connected transactions
✓	Code for Securities Dealing by Directors and Employees enhanced with dealing clearance flowchart and illustrations in 2019
✓	Onboarding Guideline for Directors*

* Detailed policies/terms of reference are available on the Company's website: www.hysan.com.hk/governance.

The Hysan Sustainability Report is made available for public viewing on Hysan's website: www.hysan.com.hk. Limited copies are printed and distributed, primarily to our shareholders. A summary of the Sustainability Report 2019 is provided on pages 98 to 101 of this Annual Report.

OUR GOVERNANCE FRAMEWORK

System of Governance

Hysan operates within a clear and effective governance structure.

The Board is responsible for ensuring the effectiveness of the Group's system of governance. Through the strong governance system, effective decision-making, good procedures and strong internal reporting are embedded into the business processes, which is aligned to the Group's strategy. The purpose of the robust system of governance is to ensure the oversight of the business and affairs of the Group, which helps drive success and long-term value creation for our shareholders.

The system of governance comprises 3 key elements: the corporate governance framework, risk management framework and internal control framework.

Corporate Governance Framework

The corporate governance system provides a framework which supports the realization of its business strategy and long-term success. It provides effective and efficient decision-making by the Board and Board Committees. The framework ensures that both Directors and employees act within a robust chain of delegated authorities and powers. This safeguards compliance with applicable laws and regulations.

The Board regularly assesses and enhances its governance framework, practices and principles according to developments in regulatory regimes and international best practices, as well as the Company's needs.

The following are Hysan's key governance-related guidelines:

• Corporate Governance Guidelines	• Onboarding Guideline for Directors	• Board of Directors Mandate	• List of Matters Reserved for the Board Decisions
• Shareholders Communication Policy	• Nomination Policy	• Corporate Disclosure Policy	• Whistleblowing Policy
• Procedures for Shareholders to Convene General Meetings/Put Forward Proposals	**Hysan's Key Governance-related Guidelines**		• Terms of Reference of various corporate governance-related Board Committees
• Code of Ethics for Directors and Employees	• Diversity Policy	• Auditor Services Policy	• Roles and Requirements of Non-Executive Directors

Detailed policies/terms of reference are available on the Company's website: www.hysan.com.hk/governance.

Risk Management Framework

The risk management framework provides a system which risk management and control are embedded. The Board has the overall responsibility of maintaining an effective risk management system. The Group has adopted a consistent approach throughout the years to identify, measure, manage, monitor and report risks.

The risk management system is underpinned by the "Three Lines of Defence" model:

First line of defence: activities undertaken to ensure that risks are identified and controlled to bring them within appetite.

Second line of defence: independent review and challenge of the first line activities, providing assurance that controls are properly designed and operating effectively.

Third line of defence: the Group's internal audit is responsible for evaluating the effectiveness of our risk management, control and governance processes.

For details, please refer to Risk Management and Internal Control Report on pages 91 to 97.

Internal Control Framework

The Group's internal control system comprises 2 main areas:

1 Delegated authority framework

Authority is delegated from the Board to the Executive Committee through the **List of Matters Reserved for the Board Decisions**. The management for the daily operation of the Group is assumed by the Executive Committee, supported by several management level committees. Each senior management and other department heads of the Group is responsible for ensuring a similar process of delegation is in place with his or her department or area of responsibilities.

2 Regulatory compliance framework

The Group's compliance policy sets out the control process to early identify and record compliance/non-compliance in order to prevent and/or mitigate the risks of liability and material loss arising from the failure to comply with the regulatory requirements. This effectively monitors the compliance of each business units of the Group, prioritize each case identified, with comprehensive reporting and follow up. For details, please refer to the section headed "Hysan's Regulatory Compliance Framework" in Risk Management and Internal Control Report on page 95.

> **"Directors actively engage in discussions regarding various aspects of corporate strategy involving potential expansion of activities, different geographies and different asset classes."**

Directors' comments received in Board Evaluation 2019.

GOVERNANCE AT A GLANCE

1 Leadership

BOARD GOVERNANCE

- Governance structure (see "Our Governance Framework" section on pages 48 to 49)
- Onboarding Guideline for Directors
- Board of Directors Mandate
- List of Matters Reserved for the Board Decisions
- Roles and Requirements of Non-Executive Directors

BOARD COMPOSITION

- 5 INEDs and 4 NEDs
- All Directors are appointed with a specific term of 3 years and are subject to rotation
- Diverse skills, knowledge and experience

CORPORATE STRATEGY

- Set strategy
- Oversee overall governance, financial performance and sustainable development of the Group (see "Governance at a Glance" section on pages 50 to 51)

2 Effectiveness

EVALUATION

- Formal board evaluation process via an electronic platform, covering the Board's effectiveness and processes. The Board discusses the findings in detail at its meetings (see "Board Evaluation 2019" section on pages 58 to 59)

INFORMATION & SUPPORT

- Good information flow between the Board and the management
- Access to independent professional advice and the Company Secretary
- Management are invited to attend Board/Committee meetings to present and answer questions to facilitate the decision-making process

DIVERSITY

- Diversity Policy
- Diversity of skills and expertise (see "Balance, Diversity and Skills" section on pages 59 to 61)

COMMITMENT

- All Directors are committed to devoting sufficient time and attention to the Company's affairs (see "Board Size, Composition and Appointments" section on page 62)

INDEPENDENCE

- Meetings of Non-Executive Directors without the Executive Director or Board members related to the founding Lee family
- Meetings of Chairman and Independent Non-Executive Directors

CONTINUOUS PROFESSIONAL DEVELOPMENT

- Directors receive various trainings and development programmes to refresh their skills and knowledge and to keep up to date with current developments

THE ROLE OF THE COMPANY SECRETARY

- Review and implement corporate governance practices
- Provide advice and support to Directors
- Keep Directors updated on legislative, regulatory and governance matters

3 Accountability

BOARD COMMITTEES

- 4 governance-related Board Committees have been established
- Board Committees report to the Board (see "Audit and Risk Management Committee Report" on pages 74 to 77, "Remuneration Committee Report" on pages 78 to 85, "Nomination Committee Report" on pages 86 to 88 and "Sustainability Committee Report" on pages 89 to 90)

MANAGEMENT PROCESS

- Day-to-day management by Executive Committee
- Governance framework includes a number of executive and advisory groups (see "Leadership" section on pages 52 to 53)

RISK MANAGEMENT AND INTERNAL CONTROL

- Regularly review and monitor risk management process
- Robust assessment of principal risks and effectiveness of internal controls
- "Risk Management and Internal Control Report" (see pages 91 to 97)

FINANCIAL REPORT AND AUDITORS

- "Independent Auditor's Report" (see pages 111 to 114)
- Internal Audit function
- External Auditor independence and appointment

SUSTAINABILITY

- Well established sustainability framework
- "Sustainability Committee Report" (see pages 89 to 90)
- Sustainability Executive Committee and Sustainability Task Force as a robust support
- Separate sustainability report since 2006

4 Engagement

CONSTRUCTIVE USE OF GENERAL MEETINGS

- Accessible AGM
- Committee Chairmen available at AGM to answer questions (in person or via dial-in)
- Notice is sent out more than 20 business days before each meeting (this exceeds the requirement under the Corporate Governance Code)

DIALOGUE WITH SHAREHOLDERS

- Enhance shareholder communication by electronic channels
- Organize shareholders' visits for understanding the Group, its portfolio, history, sustainability activities and other business areas
- Updates on shareholders' visits provided to the Board

COMMUNICATION CHANNELS WITH STAKEHOLDERS

- Teleconferences and webcasts for analysts and media briefings
- Investment community communications including roadshows
- Publication of financial reports, announcements, circulars and press releases
- Company's website

1 Leadership

Board

The Board is collectively responsible for the long-term success of the Group. With due regard to the views of shareholders and other stakeholders (including its customers, communities, employees and partners), it provides leadership and direction to the Group by setting strategy and overseeing its implementation; oversees the control and risk management; provides insights on the Group's culture and values; and is responsible for corporate governance and the financial performance of the Group. The Board is governed by a formal **Board of Directors Mandate** (see the Company's website at www.hysan.com.hk/governance for details).

To retain control of key decisions and ensure there is a clear division of responsibilities between the Board and the management for the daily operation of the Group, the Board has identified certain "reserved matters" that only the Board can approve. Other matters, responsibilities and authorities have been effectively delegated as described. The **List of Matters Reserved for the Board Decisions** can be found at the Company's website at www.hysan.com.hk/governance.

Board Committees

The Board has an Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Sustainability Committee. The Committees enable the Board to operate effectively and ensure a strong governance framework for decision-making.

The Audit Committee was renamed Audit and Risk Management Committee in February 2019 to reflect and emphasize its important role of assessing and making recommendations on the Group's risk appetite, profile and tolerance. Secondly, reflecting the strong commitment to the Group's sustainability development, the Board established a Sustainability Committee with effect from 1 January 2020. Lastly, the Board resolved to assume the role of the Strategy Committee and incorporate the Company's strategy discussions as an integral part of the Board meetings. Accordingly, the Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019. This initiative further facilitates and enables the full Board to actively involve and participate in setting and reviewing longer-term directional strategy for the growth of the Group.

The terms of reference of each committee can be found at the Company's website at www.hysan.com.hk/governance.

Executive Committee and Management Committees

Day-to-day management of the Group is delegated to the Executive Committee. The Board retains control of the key decisions and certain "reserved matters" that will be reviewed annually. Executive Committee members include the Executive Director(s), the Chief Operating Officer, the Chief Financial Officer, and other members as may be appointed by the Board from time to time.

Hysan's strong governance framework requires a number of executive and advisory groups, which include amongst others, 3 governance-related management-level committees, namely the Risk Management Committee, the Sustainability Executive Committee and the Disclosure Committee. The Sustainability Executive Committee was renamed in 2020 from the Sustainability Committee to support the newly established Sustainability Committee of the Board. To enhance the Group's strategy and overall capabilities to address new business trends and next generational shifts, the Board has appointed Li Xinzhe Jennifer as an Advisor to the Board and a Next Generation Innovation Panel to advise the Board accordingly.

> **"Management's regular presentations of strategy matters, potential expansion, budgetary impacts are very well put together and very comprehensive."**

Directors' comments received in Board Evaluation 2019.

Leadership Structure

THE BOARD

Leadership
Provides leadership and direction for the business of the Group

Strategy Planning
Sets strategy and oversees its implementation

Risk Management and Internal Control
Ensures only acceptable risks are taken

Culture and Values
Focuses on the long-term sustainability of the business

BOARD COMMITTEES

AUDIT AND RISK MANAGEMENT COMMITTEE
- Reviews risk management and internal control systems
- Oversees financial reporting
- Assesses and makes recommendations on the Group's risk appetite, profile and tolerance

REMUNERATION COMMITTEE
- Sets remuneration policy for Executive Director(s) and senior management
- Determines Executive Director(s)' and senior management's remuneration and incentives

NOMINATION COMMITTEE
- Recommends Board appointments
- Reviews Board structure, composition and diversity
- Assesses independence of INED
- Oversees succession planning

SUSTAINABILITY COMMITTEE
- Reviews the Group's corporate responsibility and sustainability development and policies
- Assesses the Group's sustainability development and risks

EXECUTIVE COMMITTEE

- Operates daily business of the Group under the Board's delegation. It is comprised of Executive Director(s), Chief Operating Officer, Chief Financial Officer and other senior management of the Group as delegated from time to time
- Assists the Board and the Company in managing the business, operational and financial performance of the Group

MANAGEMENT COMMITTEES

RISK MANAGEMENT COMMITTEE
- Senior management's forum for reviewing and discussion of risks, controls, and mitigating measures

SUSTAINABILITY EXECUTIVE COMMITTEE
- Sets targets and objectives and monitors progress
- Forms and delivers strategy-level management of all sustainability projects

DISCLOSURE COMMITTEE
- Considers issues relating to disclosure of inside information
- Ensures disclosure requirements are met
- Ensures appropriate records are maintained

Advisor to the Board
- Invited to advise the Board since 2018
- Provides advice and guidance on the Group's overall capabilities and strategic directions
- Helps the Company to capitalize on opportunities arising from fast-changing customer/tenant behaviour

Next Generation Innovation Panel
- Invited to advise the Board in 2019
- Enhances the Group's overall capabilities to address the trends, key innovations and generational shifts that may influence and disrupt the Company's operations and development
- Members of the Panel are young international entrepreneurs and accomplished next generation leaders

Board Activities during 2019

This shows the key areas of Board activities during the year to support our strategies.

Strategic Objectives

- Deliver sustainable long-term shareholder value
- Maximize returns from the investment portfolio
- Maximize development performance
- Ensure a high level of stakeholder and customer satisfaction
- Attract, develop, retain and motivate high performance individuals
- Be a best-in-class counterparty to our partners and suppliers
- Continually improve sustainability performance

Directions

- Discussed the Group's strategies and emphasized the continuity of the Company's vision and mission, focusing on the impact of global and Hong Kong changes and developments, and how the Group's business model may be affected
- Reviewed the Group's position and all the challenges the Group will be facing, the Company's culture, the impact of technology, changes in consumer behaviour as well as the resources and skills the business may require in future
- Discussed business plans and opportunities, as well as long-term directional strategy for the growth of the Group
- Considered and approved the Group's investment strategy

Link to strategic objectives:

Risk Management and Internal Controls

- Reviewed the Group's risk appetite and assessed external and internal risk level movements, imminent risks and mitigating actions
- Reviewed the effectiveness of Hysan's risk management and internal control systems
- Discussed crisis management
- Reviewed and approved an enhanced Whistleblowing Policy
- Met with the Company's valuers regularly during the year to discuss the portfolio valuation

Link to strategic objectives:

Accountability

- Discussed the outcome of the Board evaluation and effectiveness review, and agreed improvement opportunities
- The Chairmen of the Audit and Risk Management, Remuneration, Nomination and Sustainability Committees updated the Board on the proceedings of their meetings, including the key discussion points and any areas of concern
- Establishment of Sustainability Committee at Board level to emphasize the Board's commitment to drive the Group's sustainability development
- Reviewed key corporate governance related reports

Link to strategic objectives:

Governance and Legal Matters

- Reviewed, enhanced and approved various policies
  - "Onboarding Guideline for Directors"
  - "Corporate Disclosure Policy"
  - "Code of Securities Dealing by Directors"
  - "Board of Directors Mandate"
  - "Roles and Requirements of Non-Executive Directors"
  - "Code of Ethics"
  - "Shareholders Communication Policy"
  - "Auditor Services Policy"
- Reviewed corporate structure
- Reviewed the recent developments in corporate governance and received and considered key legal and regulatory updates
- Reviewed the List of Matters Reserved for the Board Decisions

Link to strategic objectives:

People and Leadership

- Reviewed the Board structure, size, composition and diversity, as well as the "independence" of Directors
- Enhanced Terms of Reference of Audit and Risk Management Committee, Remuneration Committee and Nomination Committee
- Adopted Terms of Reference of Sustainability Committee
- Reviewed and evaluated the fees of Directors
- Reviewed the development of people and compensation for the senior management
- Considered the composition of the Next Generation Innovation Panel to enhance capabilities and support the strategic directions of the Board

Link to strategic objectives:

Financial, Operational and Business Performance

- Considered the financial performance of the business and approved the annual budget
- Reviewed the interim and annual results, approved the interim and annual reports
- Reviewed and approved the funding and treasury investment plan
- Reviewed and discussed financial forecasts and analyst feedback
- Declared dividends
- Reviewed operating results and regular updates for the Group's core business (Office, Retail, Residential and Property Development segments)
- Considered the half-year and full year valuation of the Group's portfolio by the external valuer

Link to strategic objectives:

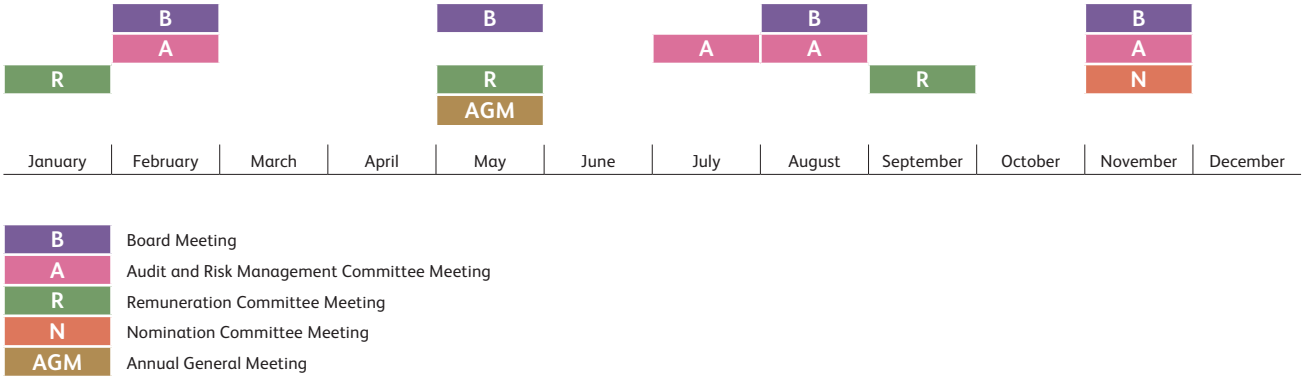
Meetings

The Board meets regularly. Members are given full and timely access to meeting materials. Each Board meeting follows a carefully tailored agenda prepared by the Company Secretary and agreed in advance by the Board/ Committee Chairman. The draft agenda is generally circulated to all Board members 3 weeks before the intended date of meeting. Board members are advised to inform the Board Chairman/Committee Chairman/ Company Secretary if they wish to include any matters in the agenda of the meeting. There is an annual cycle of topics to be considered, including business, financial as well as legal and governance updates. Each Committee provides a summary of business discussed to the Board. To facilitate the meeting proceedings, an executive summary for the agenda item is given to the Board members to allow them to grasp the key information quickly.

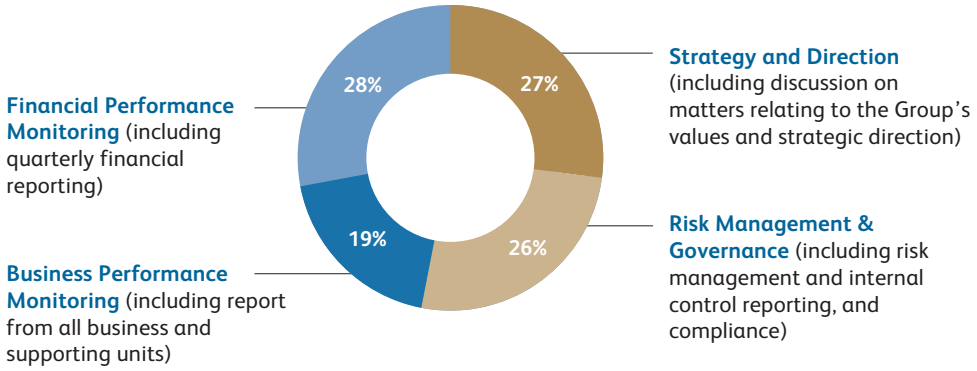
Senior employees below Board level are invited to present to the Board on operational topics during the year. Non-Executive Directors have direct and open access to employees below Board level.

Our Board meetings are generally followed by a luncheon hosted by the Board Chairman. This is typically attended by the Directors and employees from different departments and management trainees, which promotes a high level of involvement and engagement with employees at different levels of the business.

Board and Committee meetings in 2019



How the Board and Committees spent their time in 2019



Attendance at Meetings

The following table shows Directors' attendance at the meetings:

Attended

Attended by tele-conference

Attended by alternate

Attended the meetings (or part of meetings) as invitee

Directors	Meetings Held / Attended				
	Board Meeting (Total: 4) (Notes 1, 3&4)	Audit and Risk Management Committee Meeting (Total: 4) (Notes 5&6)	Remuneration Committee Meeting (Total: 3)	Nomination Committee Meeting (Total: 1)	Annual General Meeting (Annually) (Notes 5&7)
Executive Director					
Lee Irene Yun-Lien	4	4	3 (Note 2)	1	1
Independent Non-Executive Directors					
Churchouse Frederick Peter	4	1 tele-conference, 3	N/A	N/A	1
Fan Yan Hok Philip	4	4	3	1	1
Lau Lawrence Juen-Yee	4	N/A	N/A	1	1
Poon Chung Yin Joseph	4	4	3	1	1
Wong Ching Ying Belinda	4	N/A	N/A	N/A	1
Non-Executive Directors					
Jebsen Hans Michael	1 tele-conference, 1 alternate, 1 tele-conference, 1	N/A	N/A	N/A	1 alternate
Lee Anthony Hsien Pin	3, 1 tele-conference	1, 1 tele-conference, 2	N/A	N/A	1
Lee Chien	4	N/A	N/A	1	1
Lee Tze Hau Michael	1, 1 tele-conference, 2	N/A	3	N/A	1 tele-conference

Notes:

1. In November 2019, a dedicated half-day session was held during the Board meeting to discuss the Group's business plans and long-term directional strategy.
2. Excused from the session to discuss the Executive Director's own compensation package.
3. Included a meeting of Non-Executive Directors without the Executive Director or Board members related to the founding Lee family.
4. Included a meeting of Chairman and Independent Non-Executive Directors.
5. Representatives of the external auditor participated in the Audit and Risk Management Committee meetings held in February, August and November 2019 and the AGM.
6. Representatives of the external valuer participated in the Audit and Risk Management Committee meetings held in February, August and November 2019.
7. Jebsen Hans Michael was unable to attend the 2019 AGM due to other overseas commitments. Yang Chi Hsin Trevor as his alternate attended the 2019 AGM to take shareholders' questions.

2 Effectiveness

Board Evaluation 2019

This year's review of the Board's effectiveness was conducted internally and was led by the Chairman with the support of the Company Secretary. The review examined the performance and effectiveness of the Board, and the respective committees, namely, the Audit and Risk Management Committee, the Remuneration Committee, and the Nomination Committee. The evaluation required each Director to complete anonymously a questionnaire that sought inputs on matters such as the Board's performance, its dynamics and processes, its composition and diversity, monitoring and risk management as well as the logistics of Board meetings. The survey, being anonymous, encouraged the Directors to share suggestions, to provide comments and to raise any concerns. As a high-performing Board, the Board recognizes that it is important to continually assess and improve the effectiveness and performance of the Board and Board Committees.

Annual Evaluation Process

The Chairman, supported by the Company Secretary, collated the e-questionnaire responses into a detailed report. The report was prepared based on the collective comments from all the Directors, and responses of members from the Audit and Risk Management Committee, the Remuneration Committee, and the Nomination Committee. The questionnaire received a 100% response rate. The 2019 Board Evaluation Report was submitted to, considered, and discussed by the Board, and constructive feedback was received.

Parameters

We have structured our 2019 evaluation based on the Directors' views on the following 5 parameters affecting the effectiveness and performance of the Board. The evaluation consisted of a quantitative part on ratings and a qualitative part based on the Directors' written responses.

The evaluation examined 5 different aspects of the Board, the role, the composition, the meetings and processes, the Board in action and the training.

1. **Role** investigates the role of directors and the function of roles;
2. **Composition** discusses the size, structure, balance of knowledge and experience and skills of the Directors;
3. **Meetings and Processes** seeks feedback on the respective schedule, the quality of agendas, meeting papers and minutes, satisfaction with the integrity of financial statements & accounts, policies, operation & compliance controls, internal controls, environmental social governance (ESG) & risk management processes;
4. **The Board in Action** looks into performance effectiveness, supply of and access to information, strategy appropriateness, level of remuneration; and
5. **Training** investigates the quality of training and seeks inputs on areas of interest for future training events.

Conclusions from this year's Board evaluation

The conclusion of this year's Board evaluation was that the Board and its Committees continued to operate to a high standard and worked effectively. The results overall ranged from positive to very positive, and there were no material issues to report. All Board members were keen to use this evaluation process as a timely opportunity to identify ways to improve performance.

Directors favourably perceived their board leadership as highly effective. The Board has a good culture of having open and constructive dialogues. Board meetings are productive, participative and effectively engage Board members with management in formulating corporate strategies and tackling operational changes. The Board and its Committees receive materials in a timely manner and Directors have access to information, support and advice from the Company Secretary and the management team throughout the year. The Board was satisfied with the Board papers and presentations, which were well organized, comprehensive, focused and delivered in a timely manner.

Directors were also satisfied in terms of diversity in skills and experience. Directors supported and welcomed the establishment of a Sustainability Committee at Board level, which can oversee sustainability and enhance Hysan's performance in this key area.

The Directors agreed that the ongoing social issues in Hong Kong, macro challenges, business/market downturns and cyber security would be the major risks and concerns facing the Board in the coming years.

Independent Advice

Should the Directors feel that they require independent professional advice in order to fulfil their obligations as Board members, this advice may be obtained at the Company's expense as stated in our Corporate Governance Guidelines.

Balance, Diversity and Skills

Hysan recognizes the importance of diversity among its Board members, which not only contributes to the effectiveness of the Board but also to the success of the Group's business.

We strive to maintain a well-rounded and diverse Board. Our Non-Executive Directors (including 5 Independent Non-Executive Directors) have diverse backgrounds in areas such as economics, finance, business management, professional practices, and property investment. Biographies of the Directors can be found on pages 40 to 44 as well as on the Company's website at www.hysan.com.hk/about-us.

Recognizing the value of diversity to the Company, the Board adopted a separate Board Diversity Policy in 2016, which was strengthened and enhanced as the Diversity Policy applying to the Group in 2018. The Board remains committed to ensure that the selection of candidates for Board appointments is based on a range of diverse perspectives, including gender, age, cultural/educational and professional background, skills, knowledge and experience. Decisions with regard to Board appointments are based on merit balanced against the contributions that a prospective candidate will bring to the Board. The Board adopted a separate Nomination Policy to emphasize our commitment to a transparent nomination process.

The Board is also committed to strengthening diversity across the Group. Similar considerations are used when recruiting and selecting key management and other personnel across the Group's operations. For details on our hiring practices, please refer to our Sustainability Report 2019.

During the year, the Nomination Committee undertook a comprehensive review of the skills and experience of the Board, and the required expertise to guide the Company forward given the challenges facing the Group.

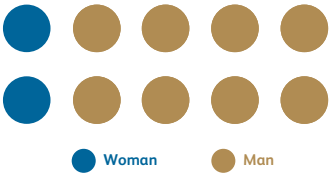
Our 9 Non-Executive Directors are from diverse and complementary backgrounds. The valuable experience and expertise they bring to our business are critical for the long-term growth of the Group:

Skills/ Experience	Summary	Combined
Strategy	Experience in defining strategic objectives, assessing business plans and driving execution in large and complex organizations.	
Risk Management	Experience in anticipating and identifying key risks to the organization and monitoring the effectiveness of risk management frameworks and controls.	
Financial Services and Investment	Experience in the financial services industry or experience in overseeing financial transactions and investment management.	
Financial Acumen	Understanding the financial drivers of the business, and experience in implementing or overseeing financial accounting, reporting and internal controls.	
Customer and Retail	Experience as a senior executive in a major retail, customer products, services or distribution company.	
Governance	Experience in and commitment to adhere to exceptional corporate governance standards.	
People and Culture	Experience in monitoring a company's culture, overseeing people management and succession planning, and setting remuneration frameworks.	
International and China	Experience in international and mainland China economics and relations.	
Property Investment	Experience as a senior executive in a major company in property investment, development or facilities management, or related industry or insights into real estate investment opportunities.	

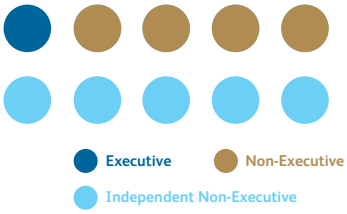
● Extensive ● Moderate

The Board | 10

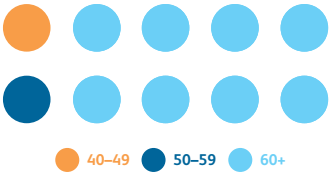
Gender



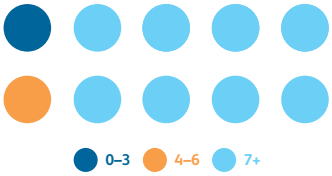
Category



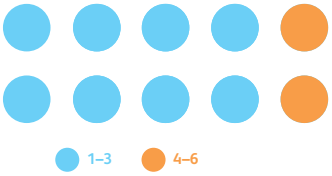
Age



Board Tenure (Years)



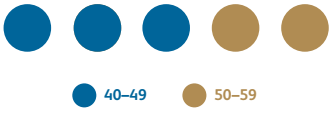
Other Public Companies Directorship(s) (Number of Companies)



Senior Management | 5

Gender

Age



(Directors and Senior Managements' full biographies, including relationships among members of the Board, are set out in pages 40 to 45 and are also available on the Company's website: www.hysan.com.hk/about-us)

Board Size, Composition and Appointments

The Board reviews its structure, size, composition and diversity from time to time; the last review was conducted in November 2019. Through the annual evaluation process, the Board members were able to ensure that they contributed to the Board and performed their responsibilities in a highly efficient manner and that they have spent sufficient time in doing so. The Board was satisfied that the Directors had a strong commitment to the Company and positively contributed to the Board through their participation in the Company's affairs and the Board's discussions and decisions, as reflected in their high attendance record on the Board and Committee meetings during the year. To ensure that our Directors have spent sufficient time on the affairs of the Company, the Directors disclose to the Company once a year the details of their other offices held in Hong Kong or overseas listed public companies and other significant commitments, as well as an indication of the time involved in those positions. In addition, the Directors usually inform the Company promptly whenever there are changes regarding their other positions.

As at 31 December 2019, there were 10 Directors on the Board: the Chairman and 9 Non-Executive Directors (including 5 Independent Non-Executive Directors). Lee Irene Yun-Lien is currently the executive Chairman. In addition to her role in leading the Board, she advises, supports and coaches the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value.

Non-Executive Directors are engaged by formal letters of appointment with a specific term of 3 years, and with a commitment to Hysan that they will be able to allocate sufficient time and attention to meeting the high expectations placed upon them. They are subject to re-election at the first AGM following their appointment. Every Director will be subject to retirement by rotation at least once every 3 years under the Company's Articles of Association. Retiring Directors are eligible for re-election at the AGM at which they retire. There is no cumulative voting in Director elections. The election of each candidate is executed through a separate resolution.

Fan Yan Hok Philip and Poon Chung Yin Joseph have served as Independent Non-Executive Directors for more than 9 years. Fan Yan Hok Philip will also retire at the forthcoming AGM to be held on 13 May 2020 by rotation and Poon Chung Yin Joseph will remain on the Board for a further year. The Board highly values Fan Yan Hok Philip's and Poon Chung Yin Joseph's experience and wisdom; they continue to provide positive and significant contributions and guidance to the Company's strategies and business development, offering independent judgment from their areas of expertise and experience in governance, risk management, finance as well as people and culture, all of which are relevant to the Group's business. The Board and the Nomination Committee were of the view that both Fan Yan Hok Philip and Poon Chung Yin Joseph have demonstrated consistently that they maintain a healthy level of professional skepticism whenever appropriate, and they have not been reserved in asking proving questions and challenging executive management's views and recommendations. There was no evidence to suggest that their tenure has had any impact on their independence.

Lee Irene Yun-Lien, Fan Yan Hok Philip, Lee Tze Hau Michael and Lau Lawrence Juen-Yee will retire at the forthcoming AGM to be held on 13 May 2020. Lee Irene Yun-Lien, Fan Yan Hok Philip and Lee Tze Hau Michael will offer themselves for re-election. Lau Lawrence Juen-Yee will not stand for re-election at the AGM. He will retire as an Independent Non-Executive Director and a member of the Nomination Committee after the conclusion of the AGM. Details with respect to the candidates standing for re-election as Directors are set out in the AGM circular to shareholders. None of these Directors has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation).

"Communication amongst Board members is robust. Regular and complete updates provided by Company Secretary."

Directors' comments received in Board Evaluation 2019.

Independence of Directors

Hysan is a listed company with a major shareholder family. The Board remains committed to maintaining independence.

- Hysan's conflicts of interest policy applies to all Directors and employees and are contained in its Code of Ethics in compliance with the Hong Kong Companies Ordinance. It aims to avoid conflicts of interest or perception of conflicts of interest. The Board has delegated authority to the Nomination Committee to review the conflicts or potential conflicts of interest and determine any mitigating actions deemed appropriate. Board members are reminded twice a year of this requirement through an explanatory note from the Company Secretary.
- Non-Executive Directors hold separate discussion sessions every year, **without** the presence of Executive Director(s) or Board members related to the founding Lee family. There were 2 such separate discussions in 2019.
- Any dealings with persons and entities regarded as "connected transactions" with the Group under the Listing Rules are subject to the approval of the full Board, as described in the **List of Matters Reserved for the Board Decisions**. "Exempted transactions" as defined by the Listing Rules' disclosure requirements must also be reported to the full Board after management approval.
- The Company has clear **Corporate Governance Guidelines**, in which Directors are considered to be independent only if they are free from any business or other relationship that may interfere with the exercise of their independent judgment.

During the reporting year, the Nomination Committee carried out a detailed review of the Directors' independence and was satisfied that each of the 5 Independent Non-Executive Directors was independent at the time of review.

Checks and Balances

"Connected Transactions" with related persons subject to full Board decision

This is covered in our **List of Matters Reserved for the Board Decisions**. The relevant requirements are more stringent than those under the Listing Rules.

Appointment of 5 Independent Non-Executive Directors with diverse backgrounds

5 Independent Non-Executive Directors have been drawn from diverse backgrounds, including economics, finance, business management, professional practices and property investment.

Clear "independence" standards for individual Directors

These are laid down in our **Corporate Governance Guidelines**.

Detailed annual review of independence of individual Directors

The Nomination Committee carries out a detailed annual review of Director's independence.

Independence Status

Name	Management	Independent	Not Independent	November 2019 Review – Reason for Independence Status
Churchouse Frederick Peter		✓		No business or other relationships with the Group or management that will affect independence
Fan Yan Hok Philip		✓		No business or other relationships with the Group or management that will affect independence
Jebsen Hans Michael			✓	
Lau Lawrence Juen-Yee		✓		No business or other relationships with the Group or management that will affect independence (Notes 1, 2 & 5)
Lee Anthony Hsien Pin			✓	
Lee Chien			✓	
Lee Irene Yun-Lien	✓			
Lee Tze Hau Michael			✓	
Poon Chung Yin Joseph		✓		No business or other relationships with the Group or management that will affect independence
Wong Ching Ying Belinda		✓		No business or other relationships with the Group or management that will affect independence (Notes 3 to 5)

Notes:

1. Lau Lawrence Juen-Yee's spouse is a partner with KPMG China and the Managing Partner in Hong Kong. KPMG is a tenant of the Group and provides taxation services principally as tax representative of the Company and certain subsidiaries, which are routine services in nature. Mrs. Lau has not been involved in any business negotiations with the Group, or in the provision of any services, and will refrain from doing so. Lau Lawrence Juen-Yee has agreed not to participate in any resolutions involving KPMG group. Since operational matters (office/retail leasing) are unlikely to be considered at Board level, any conflict of interest is regarded as unlikely to occur in practice.
2. Lau Lawrence Juen-Yee will retire at the forthcoming AGM to be held on 13 May 2020, and he will not stand for re-election at the AGM. Lau Lawrence Juen-Yee will retire as an Independent Non-Executive Director and a member of the Nomination Committee after the conclusion of the AGM in May.
3. Wong Ching Ying Belinda is also a director of certain entities of Starbucks Coffee Company. Shanghai Starbucks Coffee Enterprises Co., Ltd., a wholly-owned subsidiary of Starbucks Corporation (listed on NASDAQ), is one of the tenants of a commercial complex located in Shanghai, the People's Republic of China owned by an associate of the Company. The revenue or profit derived from those leases, indirectly as share of results of an associate, is immaterial (less than 1% of the Company's turnover or equity attributable to owners of the Company or total assets of the Company for the year ended 31 December 2019) to the Group. During her term as Independent Non-Executive Director of the Company, Wong Ching Ying Belinda will abstain from voting on any Board resolution in relation to any business dealings with the Starbucks group. Wong Ching Ying Belinda has agreed not to participate in any resolutions involving the Starbucks group. Since operational matters (office/retail leasing) are unlikely to be considered at Board level, any conflict of interest is regarded as unlikely to occur in practice.
4. Wong Ching Ying Belinda holds a cross-directorship with Lee Anthony Hsien Pin since they both serve on the boards of the Company and Television Broadcasts Limited. However, given that Wong Ching Ying Belinda plays a non-executive role and does not hold any shares in the 2 companies, the Company considered that such cross-directorship would not undermine the independence of Wong Ching Ying Belinda with respect to her directorship at the Company.
5. The Board and its Nomination Committee had assessed the independence of Lau Lawrence Juen-Yee and Wong Ching Ying Belinda in light of the circumstances, including (i) their respective backgrounds, experiences, achievements, as well as characters; (ii) the nature of the Company's relationship with KPMG and the Starbucks group and Mrs. Lau's and Wong Ching Ying Belinda's roles as well as mitigating actions as described above; and concluded that their independence would not be affected. It was decided that potential conflicts, which are minimal, could be managed and that the benefits of their appointment outweighed any risk of conflict. In addition, the mitigation principles and actions are adequate and appropriate to deal with any such issues.

Professional Development, Support and Training

The Company ensures that Directors keep their skills and knowledge up to date to allow them to fulfil their roles on the Board and Board Committees. The Company arranges periodic specific knowledge development sessions.

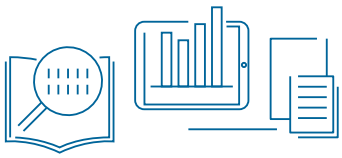
During the year of 2019, the knowledge development sessions included a sharing session on the future of office space presented by a leading global professional services firm that specializes in real estate and investment management, a deep-dive presentation by our Next Generation Innovation Panelist on how the family firms perform compared to non-family firms on environmental, social and governance (ESG) dimensions, and a portfolio visit to our new F&B tenant followed by a luncheon with the management trainees to know the new blood. Directors have expressed the view that the trainings have been stimulating and very relevant. Directors have also indicated that there were adequate training opportunities during the year. Directors are required to provide their training details to the Company once a year.

During the year of 2019, member of the senior management and the Company Secretary have access to a variety of training activities, including attending seminars, workshops and conferences relevant to their business and duties. They have received sufficient training both internally by Hysan and externally to equip them to fulfil their roles to support the Company.

In addition, on a regular basis, Directors receive updated reports facilitating greater awareness and understanding of the Group's business and the compliance regulatory updates. Information on training opportunities and seminars is also circulated to Directors.

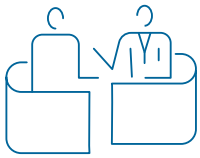
New Director's onboarding is the process of integrating a new Director with the Company and its business, governance and the Board and Board Committee dynamics. During the year, the Board adopted an Onboarding Guideline for Directors. When newly-appointed Directors join the Group, they would receive a properly tailored induction programme that would give them an understanding of the Group, its business and operations (including the major risks it faces) having regard to the Director's unique background, experience and skills. The induction programme would include an introduction session with the Company Secretary, individual meetings with the Board Chairman, Committee Chairmen, and senior management, portfolio visits, and meetings with the Company's external advisers. Individual briefings would be arranged on topics such as Directors' responsibilities and an overview of the Group's business.

The priorities of our induction programme



Providing an overview of

- the Group's business and challenges
- the Group's strategies and key risks being encountered
- the Group's corporate and organization structure
- the Board's culture, governance and dynamics
- the legal and regulatory obligations of a Director



Getting to know the Board and Senior Management

- access to the Board Chairman, Committee Chairmen and senior management
- access to external advisers (for knowledge and insight)

Directors' continuous professional development in 2019

Directors	Attending trainings organized by Hysan	Attending expert briefings / seminars / conferences / site visits relevant to the Company's business	Perusing legal, regulatory, industry and directors' duties related updates prepared by Hysan quarterly
Executive Director			
Lee Irene Yun-Lien	✓	✓	✓
Independent Non-Executive Directors			
Churchouse Frederick Peter	✓	✓	✓
Fan Yan Hok Philip	✓	✓	✓
Lau Lawrence Juen-Yee	✓	✓	✓
Poon Chung Yin Joseph	✓	✓	✓
Wong Ching Ying Belinda	✓	✓	✓
Non-Executive Directors			
Jebsen Hans Michael	✓	✓	✓
Lee Anthony Hsien Pin	✓	✓	✓
Lee Chien	✓	✓	✓
Lee Tze Hau Michael	✓	✓	✓

Ongoing training and development sessions for Hysan's management are also designed to strengthen their expertise and enrich aspiring leaders. Throughout the year, various seminars on real estate, regulatory obligations, compliance requirements and best practices and procedures were provided to the senior management and certain subsidiaries' directors. We also engaged a legal adviser to conduct a corporate disclosure drill for operating staff. During the year, the Company Secretary undertook appropriate professional training to update relevant skills and knowledge.

Hysan has a management trainee programme launched since 2017 to cultivate our future leaders, with the aim of developing our talent pipeline to meet our long-term business needs. More management trainees were recruited in 2019 to continue the pipeline.

Employee training is also an integral part of our control measures. During the year, Hysan launched various mobile learning courses, covering topics on dawn raids, competition law, connected transactions, intellectual properties rights and inside information, all of which offer learning opportunities for every member of staff anytime and anywhere.

3 Accountability

Board Committees in 2019

The Board has 4 Board Committees that provide effective oversight and leadership in accordance with the Group's Corporate Governance Guidelines, namely the Audit and Risk Management Committee, the Remuneration Committee, the Nomination Committee and the Sustainability Committee. Each Committee has access to independent professional advice and counsel as and when required, and each is supported by the Company Secretary. All of the Board Committees report to the Board.

The highlights of the Audit and Risk Management Committee, the Remuneration Committee, the Nomination Committee and the Sustainability Committee are set out in the respective reports of the Committees. Terms of reference and membership of all Board Committees are disclosed on the websites of the Company and the Stock Exchange. They are also available upon request to the Company Secretary.

Full details of the Committees' activities during the year are set out in their respective reports:

- "Audit and Risk Management Committee Report" on pages 74 to 77;
- "Remuneration Committee Report" on pages 78 to 85;
- "Nomination Committee Report" on pages 86 to 88; and
- "Sustainability Committee Report" on pages 89 to 90.

Directors' Commitment

The Directors have spent sufficient time on the affairs of the Company. The Directors have given certain confirmations and made disclosures about their other commitments. Directors have disclosed to the Company annually the number, identity and nature of other offices held in Hong Kong or overseas listed public companies and organizations and other significant commitments, together with an indication of the time involved. By disclosing their other commitments, it is assessed and confirmed that they have given sufficient time and attention to the affairs of the Company.

Management Process

The Board is regularly kept up-to-date on key events and business outlook of the Group, as well as the Group's financial and transactions entered through monthly financial reports. The reports give adequate transparency of the Company's operation to the Board.

Our Board and Committees meetings have regularly invited the senior management to make presentation and to answer questions that the Board and the Committee members may have. Our Board and Committees meetings are typically with the attendance of the senior management (Chief Operating Officer, Chief Financial Officer, Director of Office and Residential, Director of Retail, Director of Marketing and Customer Experience, General Counsel and Company Secretary, Head of Corporate Communications, Head of Human Resources and Administration). The Board Meetings are generally followed by a board luncheon hosted by the Chairman. Employees from different departments and management trainees are invited to join the board luncheon. This provides a good opportunity for Directors to engage the employees in an informal setting and to understand the culture of the Group.

Risk Management and Internal Control

The Board has the overall responsibility of maintaining an effective risk management and internal control system. The Audit and Risk Management Committee supports the Board to review the process by which risks are identified, prioritized, managed and mitigated. The risk registers are compiled both from top down, which identify macro-economic risks, as well as bottom-up, the results of greater consultation with all the functions within the Group.

Full details of the risk management and internal control activities during the year are set out in:

- "Risk Management and Internal Control Report" on pages 91 to 97.

Financial Report and Auditors

The Board supported by the Audit and Risk Management Committee monitors the integrity of the Group's reporting process and financial management. It scrutinizes the full and half-yearly financial statements, and reviews in detail the work of the external auditor and external valuer and any financial judgement and estimates made by the management.

The Group maintains its own internal audit function. In addition to the external audit support, internal audit team has carried out during the year internal audits on leasing business, accounting and financial reporting practice, corporate communication process etc. The internal audit team also provides assurance to the Audit and Risk Management Committee on the adequacy and effectiveness of the related internal control procedures.

Sustainability

The Board established a Sustainability Committee with effect from 1 January 2020 demonstrates our commitment to our stakeholders that Hysan is taking its corporate responsibility and sustainable development to the next level. The Sustainability Committee, supported by the Sustainability Executive Committee at the management level, will provide long-term direction and supervise sustainability-related matters, and it will also review and monitor management's execution of the sustainability projects.

Full details of Hysan's sustainability development and activities during the year are set out in :

- "Sustainability Report 2019" on Hysan's website: www.hysan.com.hk; and
- A summary of the Sustainability Report 2019 on pages 98 to 101.

4 Engagement

Engaging our Investors

Hysan is committed to maintaining an open and constructive dialogue with our shareholders and to providing them with the information they require to make sound investment decisions.

We maintain a comprehensive investor relations timetable for institutional investors, private shareholders and other investors. This aims to help our existing and potential investors understand our business, strategy and performance, and just as importantly, provides the opportunity to receive valuable feedback from them.

Private Shareholders

All private shareholders are encouraged to give feedback to and communicate with the Directors through the Company Secretary. They are also able to meet the Directors and Senior Management at our AGM every May.

They are invited to join the shareholders' visits to the Company's portfolio every year. The visits include a briefing on the Company's history, sustainable activities and other business areas, followed by a walking tour in the Lee Gardens area arranged by the Group. The shareholders' visits are constructive opportunities for the management to communicate with shareholders.

"All Board members, to me, have devoted due attention and efforts to help the Company shape its strategy and tackle operational challenges. The different perspectives offered by different directors are something to be treasured and sustained."

Directors' comments received in Board Evaluation 2019.

AGM 2019

We held our AGM at Hong Kong Convention and Exhibition Centre and around 300 private shareholders attended. Our AGM provided all shareholders with an opportunity to understand the business performance of the Company. The Company gave a general business update before the statutory session, and Shareholders were also shown a short video with a portfolio update of the Company.

The results of the voting at all general meetings are published at the Company's website : www.hysan.com.hk.

Results Announcement

The senior management presented the annual and interim results through press conferences, webcasts, the Company's website, and face-to-face meetings to communicate with shareholders, investors and analysts. The regular and proactive communication enhanced the understanding of the Company's latest business development, financial performance, strategy, and competitive edges of the Company.

Institutional Investors

Our investor relations team held non-deal specific meetings with institutional investors and analysts after the half-year and full year results.

Banks

Regular dialogue is maintained with our key relationship banks, including regular meetings with our treasury team led by the Chief Financial Officer.

Calendar of our main investor relations events

2019

1st Quarter

- Annual results announcement
  - Press conferences
  - Analyst briefings (live audio webcasts are also available)
- Post-results roadshows in Hong Kong

2nd Quarter

- Annual General Meeting
- Investor conferences in Hong Kong
- Property Tours

3rd Quarter

- Interim results announcement
  - Press conferences
  - Analyst briefings (live audio webcasts are also available)
- Post-results roadshows in Hong Kong
- Investor conferences in Hong Kong

4th Quarter

- Shareholders' Visits
- Property Tours

Engagement at a Glance

Accountability to Shareholders and Corporate Reporting

- Annual Report, Interim Report, press releases and announcements are disclosed in a timely manner.
- Shareholder enquiries can be made via the Investor Relations function by email to investor@hysan.com.hk.

Information Online

- Key corporate governance policies, terms of reference of Board Committees, Group's financial reports, press releases and announcements are available on the Company's website.
- Shareholders have the option to receive corporate communications by electronic means. Hard copies of the Hysan website information are also available free of charge upon request to the Company Secretary.

Dynamic engagement with Shareholders

- Ongoing dialogue and meetings between Chief Operating Officer, Chief Financial Officer, and institutional investors, fund managers and analysts.
- Regular presentations or conference calls are made to analysts and investors.
- Results announcement presentations to analysts are also disseminated by webcasts.

Electronic Communication

- Since December 2015, shareholders can choose to receive corporate communications via electronic means.
- Greater use of the Group's website is being arranged for our corporate communications.

Shareholders Communication Policy

- The Shareholders Communication Policy recognizes our commitment to provide our shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company.

Provision of Sufficient and Timely Information

- The AGM notice, Annual Report, and financial statements are dispatched to shareholders more than 30 days prior to the AGM, exceeding the statutory requirement of 21 days.
- Comprehensive information is sent on each resolution to be proposed.

Voting

- Since 2004, we have conducted all voting at AGMs by poll.
- The poll is conducted by the Company's Registrar and scrutinized by the Group's auditors.
- Procedures for conducting the poll are explained at the general meeting prior to the taking of the poll.
- Poll results are announced and posted on the websites of both the Stock Exchange and the Company.

Constructive Use of AGM

- AGMs act as a means of conducting a dialogue with private shareholders.
- Individual shareholders can put questions to the Chairman at the AGM.
- Board Committees Chairmen attend AGMs to respond to shareholders' questions.
- Senior Management and external auditor participate at AGMs.
- Since 2004, a business review session has been included in our AGMs. Topics at the last AGM included: the business environment in 2018, a review of business activities, and the Company's outlook for 2019.

Shareholders' Visits

- The shareholders' visits are opportunities every year for the management to communicate with shareholders, who gain insights into the Company's history, sustainable activities and other business areas.
- An overwhelming response has been received since the visits were launched in 2016.
- Shareholders and accompanying guests were overall satisfied with the visits, and were actively engaged in knowing the latest development of Hysan and the Lee Gardens area.

Corporate Disclosure Policy

- The Group's Corporate Disclosure Policy provides guidance on the disclosure of material information to investors, analysts and media.
- This policy identifies the spokespersons and clearly outlines the responsibilities for communication with each stakeholder group.
- Details are available at the Company's website: www.hysan.com.hk/governance.

Shareholders' Communication via Nominee Companies

- Since 2005, we have invited major nominee companies to forward communication materials to shareholders at our expense.

Dividend Policy

- Hysan's longstanding policy is to provide stable ordinary dividends to shareholders.
- The dividend payment will be based on the Group's financial performance, future capital requirements, general economic and business conditions, etc.

Shareholders' Rights under Articles of Association and Hong Kong Law

- A general meeting of shareholders can be convened by the Board or with a written request signed by shareholders holding at least 5% of the total voting rights of all the shareholders ("5% Shareholder").
- A 5% Shareholder may request to have resolutions passed by way of written resolution.
- Shareholders may put forward proposals for consideration at a general meeting.
- All requests shall state the general nature of the business to be dealt with at the meeting and deposited at the Company's registered office (49/F, Lee Garden One, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary).
- There are no limitations imposed on the right of non-residents or foreign persons to hold or vote on the Company's shares, other than those that would generally apply to all shareholders.
- Details of Procedures for Shareholders to Convene General Meetings/Put Forward Proposals are available on the Company's website.
- No changes have been made to our Articles of Association during the year.

Directors' Interests in Shares

As at 31 December 2019, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

	Number of ordinary shares held					
Name	Personal interests	Family interests	Corporate interests	Other interests	Total	% of the total no. of issued shares (Note a)
Jebsen Hans Michael	60,984	–	2,473,316 (Note b)	–	2,534,300	0.243
Lee Chien	800,000	–	–	–	800,000	0.077
Lee Irene Yun-Lien	354,000	–	–	–	354,000	0.034

Notes:
(a) This percentage was compiled based on the total number of issued shares of the Company (i.e. 1,043,820,891 ordinary shares) as at 31 December 2019.
(b) Such shares were held through a corporation in which Jebsen Hans Michael was a member entitled to exercise no less than one-third of the voting power at general meeting.

Executive Director(s) of the Company have been granted share options under the Company's share option schemes adopted on 10 May 2005 (the "2005 Scheme") and 15 May 2015 (the "New Scheme") (details are set out in the section headed "Long-term incentives: Share Option Schemes" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Aggregate long positions in shares of associated corporations

Listed below is a Director's interest in the shares of Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company:

	Number of ordinary shares held			
Name	Corporate interests	Other interests	Total	% of the total no. of issued shares
Jebsen Hans Michael	1,000	–	1,000	10 (Note)

Note:
Jebsen and Company Limited ("Jebsen and Company") held a 10% interest in the total number of issued shares in Barrowgate through a wholly-owned subsidiary. Jebsen Hans Michael was deemed to be interested in the shares of Barrowgate by virtue of being a controlling shareholder of Jebsen and Company.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2019 were recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

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

Directors' Interests in Contracts

During the year, certain Directors had interests, directly or indirectly, in contracts with the Group. These contracts constituted Related Party Transactions, Connected Transactions or Contracts of Significance under applicable accounting or regulatory rules (details are disclosed in the "Directors' Report").

Directors' Interests in Competing Business

The Group is engaged principally in the property investment, development and management of high quality investment properties in Hong Kong. The following Directors (excluding Independent Non-Executive Directors, in accordance with Listing Rules' disclosure requirements) are considered to have interests in other activities (the "Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules:

(i) Lee Irene Yun-Lien, Lee Anthony Hsien Pin, Lee Chien and Lee Tze Hau Michael are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.

(ii) Jebsen Hans Michael and his alternate, Yang Chi Hsin Trevor, hold directorships in Jebsen and Company. Business activities of some of its subsidiaries include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Jebsen Hans Michael is also a substantial shareholder of the companies.

    Jebsen Hans Michael is an independent non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.

(iii) Lee Chien is an independent non-executive director of Swire Pacific Limited whose business includes, inter alia, property investment and trading in Hong Kong, the People's Republic of China and the United States of America.

The Company's management team is separate and independent from that of the companies identified above. In addition, save and except Lee Irene Yun-Lien, the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

For the reasons stated above, and coupled with the diligence of the Group's Independent Non-Executive Directors and the Audit and Risk Management Committee, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

The Board also has a process in place to regularly review and resolve situations where a Director may have a conflict of interest.

By Order of the Board
Lee Irene Yun-Lien
Chairman

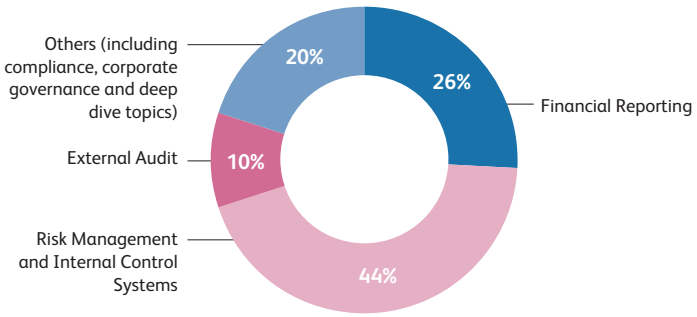
Hong Kong, 20 February 2020

Audit and Risk Management Committee Report

Dear Shareholders,

We are pleased to present the Committee's report, which provides an overview of the works undertaken by the Committee during the year. The Committee continues to play a key role to assist the Board in reviewing the risk management and internal control systems, monitoring internal and external auditors and overseeing the financial reporting process, as part of the overall strategy-setting of the Group. In February 2019, the Committee was renamed the "Audit and Risk Management Committee" from the "Audit Committee" to reflect and emphasize its ongoing role of evaluating, overseeing and monitoring the Group's risk appetite, profile and tolerance. In February 2019, the terms of reference were at the same time updated to embrace the Committee's key objectives on risk management.

Audit and Risk Management Committee activities and agenda time during the year



Composition

Majority are Independent Non-Executive Directors

Committee Members

Poon Chung Yin Joseph* (Chairman)

Churchouse Frederick Peter*

Fan Yan Hok Philip*

Lee Anthony Hsien Pin

* Independent Non-Executive Director

Highlights in 2019

- Engaged an external professional and evaluated the Group's cyber risk
- Reviewed the Group's privacy compliance updates
- Reviewed the Corporate Disclosure Policy and framework
- Reviewed the Group's risk appetite framework
- Reviewed the Group's crisis management protocol
- Reviewed the Group's corporate structure to address new business operations and risk management
- Reviewed internal control process on share dealing and share repurchase

Key responsibilities

- Oversee the integrity of the Group's financial management and reporting processes
- Review the major risks identified and monitor the effectiveness of risk management and internal control systems
- Review the risk management and internal control framework
- Oversee the relationship with the external auditor and provision of non-audit services

Meetings Schedule

Starting from 2019, the Audit and Risk Management Committee has held an additional meeting (making a total of 4 meetings during the year) to address dynamic risks and enhance the risk management oversight function. By the invitation of the Audit and Risk Management Committee, the Board Chairman and members of management (including the Chief Operating Officer and the Chief Financial Officer), internal auditor, external auditor and external valuer (as appropriate) attend the meetings to present and answer relevant questions and to facilitate the Committee's decision-making process. Pre-meeting sessions with external and internal auditors are held without management's presence.

Roles and Authorities

- Oversee the Group's financial management and reporting processes and monitor the works carried out by the external auditor. In this process, management is responsible for the preparation of the Group's financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls in such regard. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of this Annual Report.
- Review the Company's risk management and internal control systems.
- Review reports on major risks the Group is facing.
- Review the adequacy of resources, qualifications and experience of staff of the Group's internal audit, accounting and financial reporting functions, as well as their training programmes and budget.
- Review the Group's Whistleblowing Policy with an extended application coverage and enhanced reporting procedures. Under this policy, employees and related third parties who deal with the Group (e.g. consultants, contractors, suppliers, agents and customers) can raise concerns, in confidence or anonymously, about misconduct, malpractice or irregularities in any matters related to the Group. The Audit and Risk Management Committee ensures that the concerns raised are investigated and followed up as appropriate.
- Review the effectiveness of the Company's internal audit function.
- Oversee the Company's relationship with the external auditor.
- Report to the Board on its findings after each Audit and Risk Management Committee meeting.

Activities

Details on the meeting held in February 2019 were set out in the 2018 Annual Report.

From March 2019 to February 2020, the Audit and Risk Management Committee held 4 meetings to:

Financial Reporting

- Review and discuss with management and the external auditor, as well as recommend to the Board to approve, the unaudited financial statements for the first 6 months ended 30 June 2019; the audited financial statements for the year ended 31 December 2019; and the Independent Auditor's Report for the year ended 31 December 2019, prior to their publication based on the external auditor's review work and the following:
  - Discuss with the external auditor and internal auditor the scope of their respective review and findings.
  - Discuss with management significant parameters and judgments affecting the Group's financial statements, including valuation of investment properties as at 30 June 2019 and 31 December 2019 by the independent professional valuer, Knight Frank Petty Limited.
  - Review with both management and the external auditor the Key Audit Matters included in the Independent Auditor's Report for the year ended 31 December 2019.

Review of Risk Management and Internal Control Systems

- Evaluate the Group's enterprise-wide cyber risks. An independent team of Deloitte Touche Tohmatsu was engaged as part of our digital new service pre-launch due diligence. Following the assessment and evaluation of the Group's enterprise-wide cyber security management, the Group adopted the IT Outsourcing Management Policy and Procedure, and the Cloud Services Policy and Procedure, and conducted an intrusion test on its IT systems to strengthen cyber security management. A Key Risk Indicator framework is also in place to incorporate cyber risk assessment into our daily operations.
- Review the Group's privacy compliance updates.
- Review the Corporate Disclosure Policy and framework.
- Review the Group's risk appetite framework, and identify the key corporate risks, including overall business environment, operational risks, ESG risks and compliance, etc., with the tone being set by senior management. Consider the key imminent risks and risk registers presented by the management.
- Review the Group's crisis management protocol managing the impact of social unrest in 2019.
- Review and assess the Group's corporate structure in relation to new business operations and risk management, and respond to new regulatory requirements.
- Review internal control measures on share dealing and share repurchase, and enhance the Code for Securities Dealing by Directors and employees.
- Review the company-wide corporate disclosure training programme as one of the internal control measures to raise awareness and provide guidance to employees when making proper and timely decisions on disclosure.
- Review the property market trends of the retail, office and residential sectors presented by an independent professional valuer, Knight Frank Petty Limited.
- Endorse the enhanced Code of Ethics, which extends to joint ventures, contractors and suppliers working for the Company whom are encouraged to follow this Code of Ethics.
- Review the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, and their training programmes and budget.
- Review the adequacy of resources for ESG performance and reporting.
- Review the whistleblowing reports. No material issues were raised during the year.
- Review the legal and regulatory updates/trends that may affect the Group and their implications.
- Review 2019 annual risk management and internal control systems based on:
  - reports of the Internal Audit on the review of the Company's continuing connected transactions for the year ended 31 December 2019, as well as the adequacy and effectiveness of the related internal control procedures
  - regular reports by management of major risks, risk level movement and mitigating actions, and special reports on selected major risk items detailed above
  - regular reports of the Internal Audit, including status of implementation of its recommendations
  - certification and confirmation of controls' effectiveness by management, covering financial, operational and compliance controls, ESG compliance, internal audit, risk management and internal controls, noting the adoption of a control self-assessment questionnaire across the operating departments
  - confirmation from the external auditor that it had not identified any control weaknesses in respect of the Group's financial reporting cycle during the course of its audit.

The Audit and Risk Management Committee was satisfied as to the adequacy and effectiveness of the Company's risk management and internal control systems (including the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, their training programmes and budget as well as the adequacy of resources for ESG performance and reporting). No significant areas of concern that might affect financial, operational and compliance controls, ESG compliance, internal audit, risk management and internal controls functions were identified.

External Auditor

- Review and consider the terms of engagement of the external auditor in respect of the 2019 final results (including 2019 annual audit, the related results announcement, and annual review of continuing connected transactions) and the annual update of the Group's MTN Programme.
- Review the audit progress report of the external auditor.
- Annually assess and declare satisfaction with the auditor's qualifications, expertise and services, including independence. This is performed through review of the management's detailed assessment of the independence, quality of service, level of remuneration and annual confirmation of auditor's independence issued by the external auditor.

  In particular, the assessment was satisfied that the auditor's independence and objectivity have not been impaired by reason of the provision of non-audit services. All services were pre-approved by the Audit and Risk Management Committee. Appropriate policies and procedures have been established to identify audit and non-audit services as well as prohibited non-audit services that impair the independence of the auditor. Deloitte Touche Tohmatsu confirmed its independence with regard to the non-audit services provided. A rotation arrangement for the lead audit partner was also established and implemented by the auditor. The lead audit partner is required to comply with professional ethics and independence policies and requirements applicable to the work performed.

External Auditor's Services and Fees

	2019 HK$ million	2018 HK$ million
Audit Services	**2.9**	2.9
Non-audit Services (Note)	**2.5**	1.5
Total	**5.4**	4.4

Note:
"Non-audit services" include review and consultancy services, agreed-upon-procedures reports, statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters.

- Review and consider the 2020 audit service plan of the external auditor, and the terms of its engagement in respect of the 2020 interim results review.
- Recommend to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2020.

Internal Audit

- Review the internal audit plan, any matters identified as a result of internal audits, and management responses to audit reports issued during the year; as well as the progress made in implementing improvement actions.
- During 2019, the internal audit plan included reviews of leasing business, accounting and financial reporting practice, and corporate communications process, etc. No significant issues were raised during the review.
- Consider and approve the scope of work to be undertaken by the Internal Audit function in 2020. During 2020, it is expected that the internal audit plan will include reviews of leasing business, marketing, information technology management practice, etc.

Members' attendance records are disclosed in the table on page 57.

Evaluation

The Board and Committee evaluation process, which took place during the year, concluded that the Audit and Risk Management Committee was effective in fulfilling its roles in 2019. For details, please refer to Corporate Governance Report – "Board Evaluation 2019" (from pages 58 to 59).

Members of the Audit and Risk Management Committee

Poon Chung Yin Joseph (Chairman)
Churchouse Frederick Peter
Fan Yan Hok Philip
Lee Anthony Hsien Pin

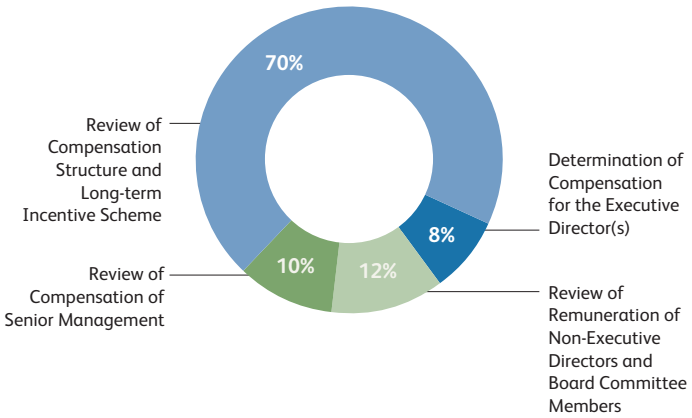
Hong Kong, 20 February 2020

Remuneration Committee Report

Dear Shareholders,

We are pleased to present our 2019's Remuneration Committee Report. The primary roles of the Remuneration Committee are advising the Board on formulating the remuneration policy for Directors and senior management, determining remuneration and incentives packages for Directors and senior management, and ensuring that the Directors and senior management have remuneration commensurate with their qualifications and competencies.

Remuneration Committee activities and agenda time during the year



Composition

Majority are Independent Non-Executive Directors

Committee members

Fan Yan Hok Philip* (Chairman)

Lee Tze Hau Michael

Poon Chung Yin Joseph*

* Independent Non-Executive Director

Highlights in 2019

- Considered remuneration for Directors and senior management
- Considered the compensation structure and long-term incentive scheme
- Reviewed the Terms of Reference

Key responsibilities

- Review Hysan's framework and general policies for the remuneration of Executive Director(s) and senior management
- Review the remuneration packages of Executive Director(s), Non-Executive Director(s) and senior management
- Review share incentive plans

Meetings Schedule

The Remuneration Committee generally meets at least once every year. 2019 was an active year for the Remuneration Committee, which held 3 meetings during the year. The Executive Director(s) and management may be invited to Remuneration Committee meetings to present and/or answer relevant questions in order to facilitate the decision-making process. No Director is involved in deciding his/her own remuneration.

Roles and Authorities

- Review Hysan's framework and general policies for the remuneration of Executive Director(s) and members of senior management, as recommended by management, and make recommendations to the Board.
- Review and determine the remuneration of Executive Director(s) and senior management.
- Review the fees payable to Non-Executive Directors and Board Committee members prior to shareholders' approval at the AGM.
- Review new share incentive plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans that have material financial, reputational, and strategic impact.

Activities

During the year of 2019, the Remuneration Committee held 3 meetings to:

- Approve the 2019 Executive Director's compensation package and the 2018 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members based on the recommendations of an independent global consultancy company specializing in human resources and compensation.
- Review and determine compensation of senior management.
- Review and consider the long-term incentive scheme and proposals based on the recommendations of an independent global consultancy company specializing in human resources and compensation.
- Review the terms of reference of the Remuneration Committee.

In January 2020, the Remuneration Committee also held a meeting to:

- Approve the 2020 Executive Director's compensation package and the 2019 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members.
- Review and determine compensation of senior management.
- Review and consider the long-term incentive scheme.

Members' attendance records are disclosed in the table on page 57.

Executive Director(s)' and Senior Management's Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality Executive Director(s), senior management and employees. At the same time, awards must be aligned with shareholders' interests. From December 2018 and continue in 2019, the Group engaged an independent global consultancy company specializing in human resources and compensation to conduct an overall review of the Group's compensation structure for Executive Director(s), Non-Executive Directors and Board Committee members, with the objective of introducing refinements to better support the Group's strategic objectives ("Independent Compensation Review"). The Remuneration Committee considered the Independent Compensation Review in depth at the meeting held in January 2019.

In May 2019, the Remuneration Committee instructed the said independent global consultancy company specializing in human resources and compensation to conduct an overall review of the Group's long-term incentive scheme and review comparable market schemes. In September 2019, the Remuneration Committee invited the said independent consultant to present and answer questions from the members of Remuneration Committee.

The following principles have been established:

- Remuneration packages and structure to reflect a fair system of rewards for all participants, with the emphasis on performance, comprising the following components:

	Components	Determining Factors	Fixed and variable compensation
Fixed compensation	Base salary and allowances	• Market trend – pay increments in general and in real estate industry • Market benchmark – relevant role and job scope • Company's performance • Individual performance and contribution – achieved against annual financial and operational targets (Turnover, Expense Ratio, EPS, Portfolio Year End Occupancy, key strategic initiatives achievement, etc.)	**Base salary and benefits**
Variable compensation	Performance bonus	• Company's performance • Individual performance and contribution – achieved against annual financial and operational targets (Turnover, Expense Ratio, EPS, Portfolio Year End Occupancy, key strategic initiatives achievement, etc.) • Actual pay out ranges from 0–200 % of the target bonus (which is set as a % of annual base salary)	Short-term **Performance-based component (bonus)**
	Share options	• Company's performance • Individual performance and potential, and the long-term contribution to Company • Grant level is based on a prescribed grant multiple of annual base salary	Long-term **Long-term incentives (share options)**

- Remuneration packages to be set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing for a similar talent pool, with special emphasis on the real estate industry. Independent professional advice is to be sought where appropriate.
- The Remuneration Committee to determine the overall amount of each component of remuneration, taking into account both quantitative and qualitative assessment of performance and achievement of financial and operational key performance targets that align with the Group's long-term strategy.
- Remuneration policy and practice to be as transparent as possible.
- Share option grantees to develop significant personal shareholdings pursuant to the executive share options in order to align their interests with those of shareholders.
- Pay and employment conditions elsewhere in the Group to be taken into account.
- The remuneration policy for Executive Director(s) and senior management to be reviewed regularly, independent of executive management.
- In January 2020, the Remuneration Committee also held a meeting to consider the annual base salary of Lee Irene Yun-Lien and concluded that her 2020 annual fixed base salary is HK$8,000,000.

Details of Directors' (including individual Executive Director(s)) and Senior Management's emoluments for the year of 2019 and option movements for Executive Director(s) during the year are set out in notes 11, 12 and 37, respectively, to the consolidated financial statements.

Non-Executive Directors' Remuneration Policy

The Independent Compensation Review also included consideration and review of the Group's compensation structure for Non-Executive Directors and Board Committee members.

Key elements of our Non-Executive Directors' remuneration policy include the following:

- Remuneration to be set at an appropriate level to attract and retain first class non-executive talents.
- Remuneration of Non-Executive Directors (subject to shareholders' approval) to be set by the Board and should be proportional to their commitment and contribution to the Company.
- Remuneration practice to be consistent with recognized best practice standards for Non-Executive Directors' remuneration.
- Remuneration to be in the form of cash fees, payable semi-annually.
- Non-Executive Directors not to receive share options from the Company.

For the year of 2019, Non-Executive Directors had received no other compensation from the Group except for the fees disclosed below. None of the Non-Executive Directors had received any pension benefits from the Company, nor did they participate in any bonus or incentive schemes.

Non-Executive Directors (including Independent Non-Executive Directors) received fees totalling HK$3,106,000 for the year of 2019.

Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. The Remuneration Committee in 2019 considered the recommendations of the Independent Compensation Review, and the level of responsibility, experience and abilities required of the Directors, level of care and amount of time required, as well as the fees offered for similar positions in companies requiring the same talents. Revision to fees of Non-Executive Directors and Chairman and member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee were proposed, and approved, at the AGM held on 16 May 2019.

In January 2020, the Remuneration Committee decided that the fees of the Directors shall remain unchanged. It also considered that the newly established Sustainability Committee has an important role to support the Board in overseeing the Group's corporate social responsibility and sustainability strategy. It was proposed to the Board for consideration and the Board approved that the Sustainability Committee Chairman and members be remunerated with appropriate chairmanship and membership fees.

The current fees for Non-Executive Directors and Board Committee members and the fees for 2020 are set out below. Executive Director(s) will not receive any director fee(s).

	2019 Fee Per annum HK$		2020 Fee Per annum HK$
Board of Directors			
Non-Executive Director	280,000	(Note 2)	Unchanged
Audit and Risk Management Committee			
Chairman	180,000	(Note 2)	Unchanged
Member	108,000	(Note 2)	Unchanged
Remuneration Committee			
Chairman	75,000	(Note 2)	Unchanged
Member	45,000	(Note 2)	Unchanged
Nomination Committee			
Chairman	50,000	(Note 2)	Unchanged
Member	30,000	(Note 2)	Unchanged
Sustainability Committee (Note 1)			
Chairman	N/A		50,000
Member	N/A		30,000

Notes:
1. Sustainability Committee has been established with effect from 1 January 2020.
2. Approved by shareholders in the 2019 AGM and took effect on 1 June 2019.

Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2019 was 514. The Group's human resources practices are aligned with our corporate objectives in order to maximize shareholder value and achieve growth. Details of our human resources programmes, training and development are set out in the "Sustainability Report 2019".

Long-term incentives: Share Option Schemes

The Company may grant options under executive share option schemes as adopted from time to time. The purpose of the schemes is to strengthen the connection between individual staff and shareholders' interests. The power to grant options to Executive Director(s) is vested in the Remuneration Committee and endorsement by all Independent Non-Executive Directors is required under the Listing Rules. The Chairman or the Chief Executive Officer may make grants to management staff below the Executive Director level.

The 2005 Share Option Scheme (the "2005 Scheme")

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005 (the "2005 AGM"), which had 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. No further option will be granted under the 2005 Scheme.

Under the 2005 Scheme, options to subscribe to ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director(s)) 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 the maximum number of shares permissible under the Listing Rules, being 10% of the total number of shares in issue as at the date of the 2005 AGM (being 104,996,365 shares).

The maximum entitlement of each participant under the 2005 Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1% of the total number of shares in issue as at the date of the 2005 AGM, 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 for 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 the exercise price to be made on exercise of the relevant options.

The 2015 Share Option Scheme (the "New Scheme")

The Company adopted the New Scheme (together with the 2005 Scheme, both are referred to as the "Schemes") at its AGM held on 15 May 2015 (the "2015 AGM"), 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.

Under the New Scheme, options to subscribe to ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director(s)) 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 the maximum number of shares permissible under the Listing Rules, currently being 10% of the total number of shares in issue as at the date of the 2015 AGM (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in a general meeting for "refreshing" the 10% limit under the New Scheme. The limit on the total number of shares that 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 the maximum number of shares permissible under the Listing Rules). No options may be granted if such a grant would result in such 30% limit or maximum permissible limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1% of the total number of shares in issue as at the date of the 2015 AGM, 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 for 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 the exercise price to be made on exercise of the relevant options.

Grant and vesting structures

Under the Company's current policy, grants are to be made on a periodic basis. The exercise period is 10 years. The vesting period is 3 years in equal proportions starting from the 1st anniversary and shares will become fully vested on the 3rd anniversary of the grant. The size of the grant will be determined with reference to a base salary multiple and job performance grades. The Board reviews the grant and vesting structures from time to time.

Movement of share options

During the year, a total of 1,286,200 shares options were granted under the New Scheme. The 2005 Scheme had expired on 9 May 2015 and no further option has been granted under the 2005 Scheme.

As at the date of this Annual Report:

- share options exercisable into a total of 1,322,667 ordinary shares of the Company granted and fully-vested under the 2005 Scheme remained outstanding, representing approximately 0.13% of the total number of issued shares of the Company;
- share options exercisable into a total of 3,170,067 ordinary shares of the Company granted (including fully-vested share options exercisable into 1,134,392 ordinary shares of the Company) under the New Scheme remained outstanding, representing approximately 0.30% of the total number of issued shares of the Company; and
- 102,853,005 shares are issuable under the New Scheme, representing approximately 9.86% of the total number of issued shares of the Company.

Details of options granted, exercised, cancelled/lapsed and outstanding under the Schemes during the year are as follows:

Name	Date of grant	Exercise price HK$	Exercise period (Note a)	Balance as at 1.1.2019	Changes during the year: Granted	Exercised	Cancelled/ lapsed (Note b)	Balance as at 31.12.2019
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	–	–	–	32,0000
	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
				1,322,667	–	–	–	1,322,667

Name	Date of grant	Exercise price HK$	Exercise period (Note a)	Balance as at 1.1.2019	Changes during the year: Granted	Exercised	Cancelled/ lapsed (Note b)	Balance as at 31.12.2019
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
				1,983,867	1,286,200	(49,000)	(51,000)	3,170,067

Notes:
(a) 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.
(b) The options lapsed during the year upon the resignations of certain eligible employees.
(c) Eligible employees are those working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
(d) 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.
(e) 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.
(f) 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.

Apart from the above, the Company has not granted any share option under the Schemes to any other persons during the year that is required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Schemes are set out in note 37 to the consolidated financial statements.

Value of share options

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the year is to be expensed through the Group's statement of profit or loss over the 3-year vesting period of the options.

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.

The inputs into the Model were as follows:

Date of grant	29.3.2019	22.2.2019
Closing share price at the date of grant	HK$42.050	HK$42.400
Exercise price	HK$42.050	HK$42.400
Risk free rate (Note a)	1.406 %	1.552 %
Expected life of option (Note b)	5 years	5 years
Expected volatility (Note c)	17.689 %	17.710 %
Expected dividend per annum (Note d)	HK$1.342	HK$1.342
Estimated fair values per share option	HK$4.460	HK$4.750

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 approximate 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.

Members of the Remuneration Committee

Fan Yan Hok Philip (Chairman)
Lee Tze Hau Michael
Poon Chung Yin Joseph

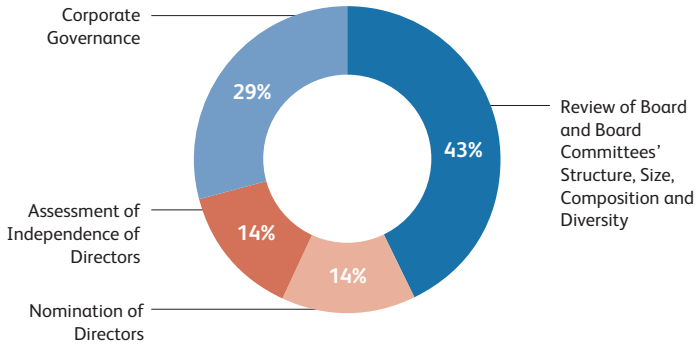
Hong Kong, 20 February 2020

Nomination Committee Report

Dear Shareholders,

We are pleased to present our 2019's Nomination Committee Report. The primary roles of the Nomination Committee are to review the Board structure, composition and diversity, and to recommend Board appointments. The roles of the Non-Executive Directors continue to evolve in line with growing demands and the fast-changing business environment. The Board is constantly looking ahead to ensure that our Non-Executive Directors have the required skills and experience to drive the highest performance.

Nomination Committee activities and agenda time during the year



Composition

Majority are Independent Non-Executive Directors

Committee members

Lee Irene Yun-Lien (Chairman)

Fan Yan Hok Philip*

Lau Lawrence Juen-Yee*

Lee Chien

Poon Chung Yin Joseph*

* Independent Non-Executive Director

Highlights in 2019

- Considered the re-appointment and independence of Directors
- Adopted the Onboarding Guideline for Directors
- Reviewed the Board of Directors Mandate and the Roles and Requirements of Non-Executive Directors
- Reviewed the Terms of Reference

Key responsibilities

- Review the structure, size, composition and diversity of the Board and make recommendations to the Board
- Assess independence of the Independent Non-Executive Directors

Meeting Schedule

The Nomination Committee generally meets at least once every year.

Roles and Authorities

- Review and make recommendations on the structure, size, composition and diversity of the Board to complement the Company's corporate strategies.
- Review the Diversity Policy.
- Review the independence of Directors pursuant to the Listing Rules' requirements.
- Generally oversee the succession planning of the Board.
- Review the time commitment and the efforts required from Directors to discharge their responsibilities.
- Review the training and continuous professional development of the Directors.
- Consider the nomination of Directors after careful consideration of the attributes and values required to support the effective functioning of the Board in accordance with the Company's Nomination Policy. In addition, to take into account diversity aspects (including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience), with due regard for the benefits of diversity, as set out under the Diversity Policy.

Director Recruitment Process

1 A wide and diverse range of candidates with different skills and business backgrounds that would be attributable to the business needs are identified

2 Nomination Committee Chairman meets with shortlisted candidates

3 Nomination Committee assesses the suitability of the candidates based on a range of criteria

4 All Directors are given the opportunity to meet with the preferred candidate

5 Nomination Committee makes a recommendation to the Board

Activities

During the year of 2019, the Nomination Committee held a meeting to:

Board Composition

- Review the Board's structure, size, composition and diversity, and monitor the progress made towards enriching the skills and experience of Board members while improving diversity within the Board. The Nomination Committee was satisfied that, with the establishment of the Sustainability Committee at Board level on 1 January 2020, the current composition and size of the Board remained appropriate for the time being. These matters shall continue to be kept under regular review.
- Continue with the appointment of Li Xinzhe Jennifer as an advisor to the Board, to continue to enrich the Board's skills and diversity.
- The recent Board performance evaluation concluded that the Board has operated very well. The Nomination Committee was satisfied that all Directors were strongly committed to the Company and had contributed to the Board through their participation in the Company's affairs and discussions at the Board and Board Committees' meetings during the year, as reflected in their high attendance recorded in the table on page 57.
- Review the contribution of the Directors who are due to retire and are subject to re-appointment at the forthcoming AGM with the support of the Board.
- Review the training of the Directors and senior management.

Independence of Non-Executive Directors

- Assess the independence, effectiveness and commitment of each of the Company's Independent Non-Executive Directors.
- Consider that 2 Directors, Fan Yan Hok Philip and Poon Chung Yin Joseph, have served as Independent Non-Executive Directors for more than 9 years. Fan Yan Hok Philip will also retire at the forthcoming AGM to be held on 13 May 2020 by rotation and Poon Chung Yin Joseph will remain on the Board for a further year. The Nomination Committee was of the view that both Fan Yan Hok Philip and Poon Chung Yin Joseph have demonstrated consistently that they maintain a healthy level of professional skepticism whenever appropriate, and they have not been reserved in asking proving questions and challenging executive management's views and recommendations. There was no evidence to suggest that their tenure has had any impact on their independence.
- The Nomination Committee was satisfied that notwithstanding the length of service of such Directors, as well as their number and nature of office(s) held in other public companies and their other commitments, they remained highly committed to the Company, are independent and impartial, and continue to be in a position to discharge their duties and responsibilities in the coming year.

Review of Policy and Guidelines

- Adopt the Onboarding Guideline for Directors to establish a robust onboarding process to help new Directors to engage with fellow Directors and management
- Enhance our Board of Directors Mandate and the Roles and Requirements of Non-Executive Directors so that they align with the latest developments and ensure good corporate governance
- Review its terms of reference taking into account the corporate governance roles of the Nomination Committee. In February 2019, the terms of reference were updated to address key objectives.

Sustainability Committee and Next Generation Innovation Panel

- Consider the establishment and composition of the Sustainability Committee at Board level, which oversees the Group's sustainability development and strategies, governance and reporting with effect from 1 January 2020.
- Consider the nature and composition of the Next Generation Innovation Panel, which improves capabilities and supports the strategic direction-making of the Board.

Members of the Nomination Committee

Lee Irene Yun-Lien (Chairman)
Fan Yan Hok Philip
Lau Lawrence Juen-Yee
Lee Chien
Poon Chung Yin Joseph

Hong Kong, 20 February 2020

Sustainability Committee Report

Dear Shareholders,

The Board is constantly looking ahead to ensure that our Company is aligned with the latest international sustainability and ESG best practices, which led to the establishment of the Sustainability Committee on 1 January 2020.

The primary roles of the Sustainability Committee are to review and oversee the Group's corporate responsibility and sustainability development and policies. The Committee is tasked with overseeing the overall corporate responsibility and sustainability vision and action plans for the Group while bringing any related issues to the attention of the Board. It also assesses and makes recommendations on matters concerning the Group's sustainability opportunities and risks.

Composition

Majority are Independent Non-Executive Directors

Committee members

Jebsen Hans Michael B.B.S. (Chairman)

Fan Yan Hok Philip*

Wong Ching Ying Belinda*

* Independent Non-Executive Director

Highlights in 2020

- Sustainability Committee was established on 1 January 2020
- Reviewed and endorsed Hysan's sustainability strategy

Key responsibilities

- Review Hysan's sustainability roadmap and making recommendations to the Board

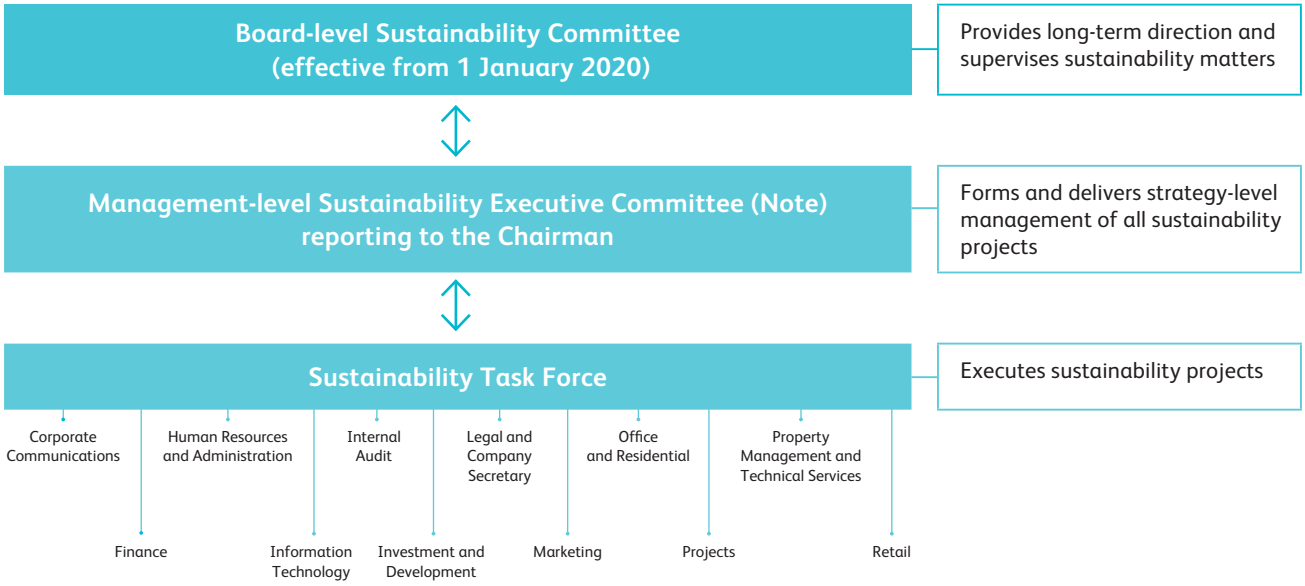
Meeting Schedule

The Sustainability Committee generally meets at least once every year.

Roles and Authorities

- Review, endorse and report to the Board the Group's corporate responsibility and sustainability plans, strategies, priorities, policies, practices and frameworks.
- Review and evaluate the adequacy and effectiveness of the actions taken by the Group based on its corporate responsibility and sustainability plans, strategies, priorities, policies and frameworks, and recommend improvements.
- Review and report to the Board on sustainability risks and opportunities.
- Monitor and review existing and/or emerging issues, trends and investments related to corporate responsibility and the sustainability of the Group.
- Monitor and review the Group's corporate responsibility and sustainability policies and practices to ensure they remain relevant and compliant with legal and regulatory requirements (including, but not limited to, the relevant Hong Kong Stock Exchange Environmental, Social, Governance Reporting Guide and the Listing Rules).
- Review and provide recommendations to the Board for approval of the annual corporate responsibility/ sustainability report and relevant disclosures in the Company's annual report.

Hysan's Sustainability Governance Structure



Note:
In 2020, the management-level sustainability committee was renamed as the Sustainability Executive Committee to support the newly established Sustainability Committee of the Board. The management-level Sustainability Executive Committee consists of all department heads of the Company and is chaired by the Chief Operating Officer.

Activities

In February 2020, the Sustainability Committee held a meeting to:

Review Hysan's Sustainability Strategy

- Discuss and review Hysan's sustainability strategy. The Sustainability Committee considered the action plan and identified potential risks and challenges related thereto, benchmarking international standards and industry peers.

Discuss ESG Overview and Direction

- Hysan has consistently engaged with the community in which it operates since the community is core to the Group's heritage. The Committee reviews the engagement strategy on a regular basis in order to prepare for the future.

Members of the Sustainability Committee

Jebsen Hans Michael B.B.S. (Chairman)
Fan Yan Hok Philip
Wong Ching Ying Belinda

Hong Kong, 20 February 2020

Risk Management and Internal Control Report

Responsibility

Responsibility for risk management is shared among the Board of Directors and the management of the Group. The Board has the overall responsibility of reviewing and maintaining sound and effective risk management and internal control systems. Management's role is to design and implement these systems, and report to the Board and the Audit and Risk Management Committee on the risks identified and how they are managed. This process is essential for the Group to achieve its business objectives.

Our Risk Management and Internal Control Framework

The Audit and Risk Management Committee supports the Board in monitoring our risk exposures, as well as the design and operating effectiveness of the underlying risk management and internal control systems. Acting on behalf of the Board, the Committee oversees the following process on a consistent basis:

i. Reviewing the principal business risks and control measures in order to mitigate, transfer or avoid such risks; the strengths and weaknesses of the overall risk management and internal control systems; and action plans to address the weaknesses or improve the assessment process;

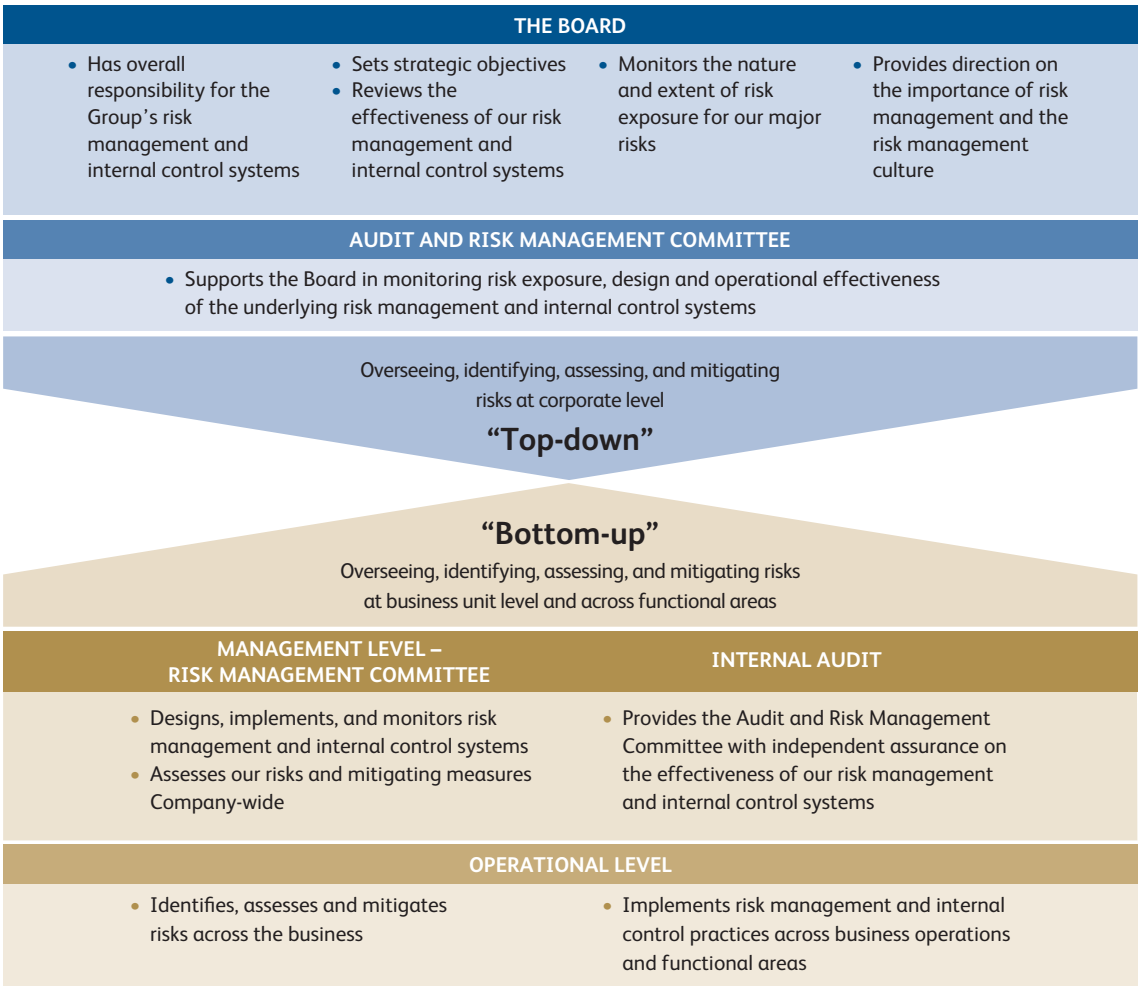
ii. Reviewing the business process and operations reported by Internal Audit, including action plans to address the identified control weaknesses, as well as status updates and monitoring the implementation of audit recommendations; and

iii. Reporting by the external and internal auditors of any control issues identified in the course of their work, and discussing with the external and internal auditors the scope of their respective review and findings.

The Audit and Risk Management Committee reports its findings to the Board, which then considers these findings in order to form its own view of the effectiveness of the Group's risk management and internal control systems.

Please also see the "Audit and Risk Management Committee Report" from pages 74 to 77 regarding the Audit and Risk Management Committee's detailed review work, including the forms of assurance received from management, the external auditor and internal auditor.

Hysan's Top-Down/Bottom-Up Risk Management Framework



2019 Review of Risk Management and Internal Control Effectiveness

In respect of the year ended 31 December 2019, the Board, with confirmation from Chief Operating Officer, Chief Financial Officer, Head of Internal Audit as well as General Counsel and Company Secretary, considered the risk management and internal control systems to be effective and adequate. No significant areas of concern that may affect the financial, operational and compliance controls, ESG compliance, internal audit, risk management and internal control functions of the Group were identified. The risk management and internal control systems are designed to manage rather than to eliminate the risks of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

During the review, the Board also considered the resources, qualifications/experience of staff of the Group's internal audit, accounting, financial reporting and business support functions and found their training and budgets to be adequate.

Our Risk Management and Internal Control Model

Our risk management and internal control model is based on that of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the U.S. for internal control, but with due consideration given to our organizational structure and business nature.

Our model has 5 components. How the model fits into our operational and control environment is described as follows:

- **Control Environment** – this sets the tone for risk management and internal control. As Hysan is a tightly-knit organization, the actions of management and its commitment to effective governance are transparent to all.

  We have a strong tradition of good corporate governance and we are committed to maintaining a high standard of integrity, openness, probity and accountability. A formal Code of Ethics is communicated to all staff (including new recruits). We have maintained a separate Whistleblowing Policy since 2016, under which whistle blowers can raise concerns, in confidence, through an independent third party who then reports to the Audit and Risk Management Committee. We are committed to building risk awareness and control responsibility into our corporate culture, which thereby forms the foundation of our risk management and internal control systems.

- **Risk Assessment** – we continue to improve our risk management process and the quality of information generated, while maintaining a simple and practical approach. Instead of establishing a separate risk management department, we seek to embed risk management into all our operations (retail, office, residential, property management & technical services, projects, marketing and investment & development) and functional areas (including finance, human resources & administration, IT, legal & secretarial and corporate communications).

  On an annual basis, department heads review and update their risk registers, providing assurances that controls are appropriately embedded and operating effectively.

  At management level, the Risk Management Committee, comprising Executive Director(s), Chief Operating Officer, Chief Financial Officer, Financial Controller, General Counsel and Company Secretary, as well as Head of Internal Audit, sets relevant policies and regularly monitors potential weaknesses and action items. This Committee is also responsible for identifying and assessing risks of a more macro and strategic nature, including emerging risks.

  This bottom-up approach, in which operating unit heads identify operational risks, together with top-down stewardship, ensures a comprehensive assessment of the Group's major risks. Discussion sessions with all department heads further enhance the participatory and interactive aspects of the overall risk assessment and risk challenge process.

- **Control Activities and Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on supervisor reviews, segregation of duties, and well defined control points, both physical and digital. These control policies have been formalized as written policies and procedures, with defined limits of delegated authority and segregated duties and controls.

  The annual budgeting and planning process, one of our key control activities, takes into consideration all risk factors as well as the latest economic and social trends. All operating units, in preparing their respective plans, are required to identify material risks that may have an impact on the achievement of their business objectives. Action items to mitigate identified risks are required to be developed for implementation. Variance analyses are regularly performed and reported to management and the Board, which help to identify deficiencies for timely remedial actions to be taken.

  Another significant control activity is the monitoring of major project expenditures, as they are a particularly capital-intensive aspect of our property business. For each project, a detailed analysis of expected risks and returns is submitted to the operating unit heads, Chief Operating Officer, Chief Financial Officer, Executive Director(s) and the Board for approval as appropriate. Criteria used to assess business and financial feasibility are generally based on net present value, payback period, and internal rate of return from projected cash flow as well as on sensitivity analysis.

  Management also conducts an annual internal control self-assessment. All department/unit heads must complete a relevant control self-assessment questionnaire and confirm with management that appropriate internal control policies and procedures have been established and properly complied with.

- **Monitoring Activities** – the Board and the Audit and Risk Management Committee oversee the control process, with the assistance from our Internal Audit team. Management provides update reports to the Audit and Risk Management Committee on major risks and appropriate mitigating measures. In 2019, the Audit and Risk Management Committee held 4 meetings (2018: 3 meetings) to address the dynamic risks and enhance the risk management oversight function. Each meeting has a dedicated discussion regarding risk management, internal control systems and recent development.

Strengthening our Underlying Systems

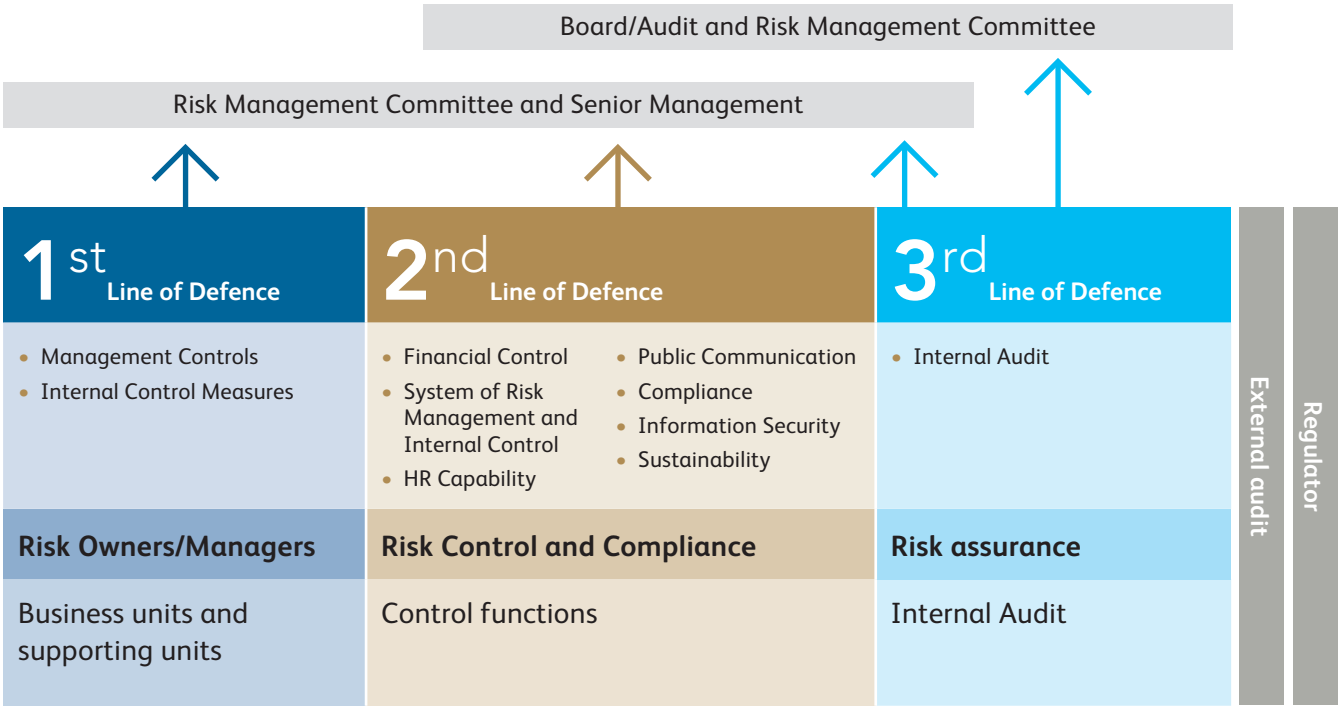
Since 2012, we have adopted a COSO-based framework and transformed a process-based risk management framework into a risk-based one. The risk-based approach ensures our ability to analyse risks and respond to opportunities as we pursue our strategic objectives, including sustainability.

Management reporting to the Audit and Risk Management Committee has been continuously enhanced, including regular and special reports on imminent risk topics. We have also integrated risk management and internal control into our business processes, including annual budgeting and planning as well as major project management.

Ultimately, our objective is to make risk management a "living" process that is practised on a day-to-day basis by operating units, incorporating up-to-date and fit for purpose market best practice.

Hysan's "Three Lines of Defence" Model

Clear responsibilities and robust controls are vital to help manage risks. Since 2017, we have reinforced our risk governance structure by adopting a "Three Lines of Defence" model to address how specific duties related to risk and control should be assigned and coordinated within the Group. This has reinforced Hysan's risk management capabilities and compliance culture across all divisions and functions.



The model aims to reinforce Hysan's risk management capabilities and compliance culture throughout the Group. The responsibilities of each of the defence lines are as follows:

Business units and Supporting units	Corporate monitoring and control functions	Group internal audit
• Ultimately accountable for all risks and controls in all business processes	• Responsible for the Group's policy framework and independent risk assessment	• Responsible for providing independent and objective assurance on the effectiveness of risk management, internal controls and governance processes

Hysan's Regulatory Compliance Framework

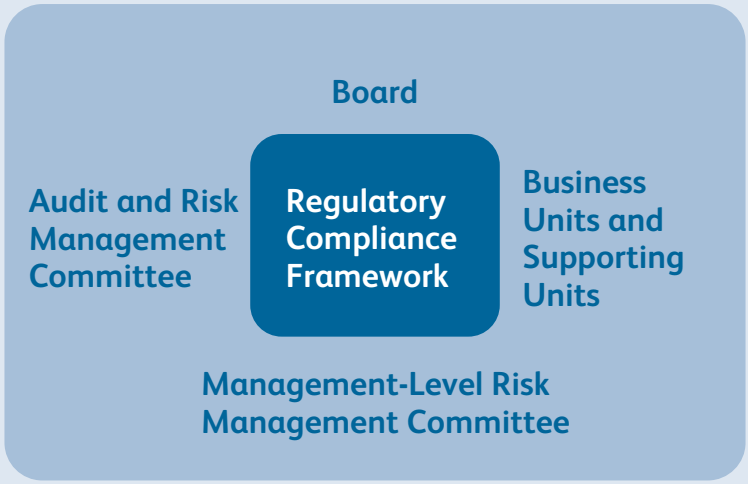
The Board, supported by the Audit and Risk Management Committee, shall have overall regulatory compliance authority in all matters. We have a regulatory compliance framework in place, which is fundamental to our commitment to achieving a high standard of internal control and governance.

Monitor

- Semi-annual compliance reported to the Audit and Risk Management Committee and the Board.
- Quarterly legal and regulatory update to the Audit and Risk Management Committee and the Board.
- Corporate governance policies regularly reviewed by the Board.

Identify

- Each business unit and supporting unit confirms compliance semi-annually (including compliance with laws affecting its operation).
- Compliance/Non-compliance is properly identified and recorded.



Respond

- Advise business units and supporting units on appropriate legal steps/actions.
- Assist the units to initiate and follow up on the required action.
- Report to the management-level Risk Management Committee.

Prioritize

- Prioritize for immediate action, corporate governance/policy planning, comprehensive reporting and follow up.

Assess

- Review and assess the impact. Seek external legal advice, where necessary.
- Report to the management-level Risk Management Committee.

Our Past Efforts to Enhance the Internal Control Environment and Activities

In addition, the following are examples of the improvements we have made over the past few years to strengthen our risk management and internal control systems:

Control Environment – policy of compliance	• Updated corporate governance policies including Whistleblowing Policy, Code of Ethics, Onboarding Guideline for Directors, Board of Directors Mandate, Roles and Requirements of Non-Executive Directors, Corporate Disclosure Policy, Shareholders Communication Policy, Code for Securities Dealing by Directors and employees in 2019, and human rights policy in 2020.	Ongoing review/ refinement of processes and structures to enhance compliance.
Risk Assessment – enhanced monitoring of "emerging risks"	• Strengthened the monitoring of material risks and "emerging risks", i.e. new or evolving risks with potential significant impact, such as socio-political, economic or cyber security risks. • The management-level Risk Management Committee plays a key role in identifying and tracking these risks, with top management leading discussions with all department heads.	In the context of a fast-changing global and local environment, the monitoring of "emerging risks" will be a focus.
Control Activities – e-compliance system	• The half-yearly compliance reporting was carried out electronically in July and December 2019. • The legal compliance and connected transactions reporting systems were combined into one. This facilitates timely reporting, good record tracking and improves efficiency.	Continual review and refinement of internal risk management and reporting procedures to ensure prompt and timely response and escalation.
Control Activities – internal controls and policies	• Legal & Secretarial Department carried out a Corporate Disclosure Drill with an external professional in November 2019. Working level employees from Finance Department (Financial Reporting Team and Treasury Team), Investment & Development Department, Corporate Communications Department, Legal & Secretarial Department all attended an interactive drill with case studies. • Regular trainings and education provided across the Group during the year by Legal & Secretarial Department and external professional advisors, including commercial contract negotiation as well as rental recovery solutions to support daily operations. • General Counsel and Company Secretary worked with Human Resources Department to launch a group wide awareness education programme in May 2019. Key modules have been uploaded to Hysan's mobile learning platform, including inside information, intellectual properties rights, competition law, connected transactions and dawn raids. New staff are requested to complete the modules within a prescribed period.	Continual review and refinement of policies and procedures, keeping risk management and internal controls in line with fast-changing external and internal business environments, are essential.
Monitoring Activities – enhanced "management assurance" to the Audit and Risk Management Committee and the Board	• Enhanced management update reports to the Audit and Risk Management Committee and to the Board on major risks, including deep-dive reports on topics such as enterprise-wide cyber security updates and assessments, privacy compliance updates and analysis of corporate structure in relation to new business and risk management. • To strengthen management's "assurance" to the Audit and Risk Management Committee and the Board, self-assessment questionnaires were distributed to all departments. Department heads were required to review and certify the effectiveness of their departmental controls, including the identification of any control issues. This initiative backs up management's certification to the Audit and Risk Management Committee and the Board.	Facilitate and enhance the work of the Audit and Risk Management Committee and the Board in monitoring our risk exposure.

Our Risk Profile

Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of our major risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk area	Risk level changes during 2019	Description of risk change	Our mitigating measures
Overall business environment	↑	• Retail industry hit by ongoing social unrest. • Uncertainties arising from China-U.S. trade tensions.	• Proactive measures taken to ease tenants' business pressures. • Focus on portfolio curation as well as prudent and sound financial management to ensure Hysan's business resilience.
Office sector	↑	• Decentralization from Central continued to benefit office space in Causeway Bay. However, signs of a slow down were clear. • Net take-up of Grade A office space in Hong Kong dropped 62% year-on-year. • Co-working continued to disrupt the traditional office leasing business. Expected consolidation may disturb the market.	• Diverse and flexible leasing efforts as well as maintaining a diversified tenant mix ensure a more resilient tenant portfolio. • Offer tailored solutions to increase marketability of office units. • Embrace co-working trend by collaborating with leading and strong co-working brands. • Mutual empowerment with our Retail portfolio
Retail sector	↑	• Retail spending in Hong Kong declined sharply amid the ongoing social unrest coupled with uncertainties from global economies. • Causeway Bay is one of the major areas affected by social unrest. • Brands consolidating their outlets for cost savings. • Peer competition has intensified.	• Diverse and flexible leasing effort as well as active curation of tenant mix to ensure a more resilient and sustainable tenant portfolio. • Short-term support to ease tenants' business pressure and reinforce long-term business partnership. • Use mobile and business technology to drive loyalty programme as well as shopping experiences to distinguish our offerings. • Focus on marketing efforts to target relevant existing and potential new shoppers. • Area rejuvenation of Lee Gardens to enrich shopper experience.
Residential sector	↑	• Uncertainties in the economy affect demand for luxury residential units from expatriates as well as affordable rent levels due to their tighter budget.	• Continue to invest in renovation of residential units and common areas to attract new tenants and improve rentals.
Tai Po Residential Development Project	↑	• Recent signs of the cooling of the property market, as well as the looming "vacancy tax", may affect future profitability.	• Ensure the sites are carefully and professionally developed to capture the target market. • Approach the market at the right moment. • Sensible tender price mitigates pressure on profit.
Human Resources	↔	• The service industry continues to face labour shortages. • We are facing competition for skilled personnel for our frontline operations as well as for management to support our growth strategy.	• Improved working environment, benefits and an emphasis on well-being will help recruit new blood and retain talented people more effectively. • Enhance staff productivity with technology enablement and process automation.
Cyber Security	↑	• With fast developments in business technology, Hysan continues to leverage technology to improve our offering to shoppers and tenants, as well as to enhance our operations and management. • Disturbances to business due to cyber security risks can be significant and costly to rectify.	• Regular cyber security review and upgrade to mitigate the risks. • Engage external professionals to conduct a cyber security audit and a deep-dive review. • Ongoing monitoring of key risk indicators.
ESG compliance	↔	• Increasing attention from investors and the general public in assessing public companies. • New requirements on compliance.	• Professional independent consultant conducted an overall review of the Group's sustainability and climate change performance. • The Group executed the sustainable development principles and attained targets set. • Sustainability Committee at Board level was established in 2020.

Notes: ↑ where "inherent risks" (i.e. before taking into consideration mitigating activities) have increased ↓ where "inherent risks" have decreased ↔ where "inherent risks" have remained broadly the same

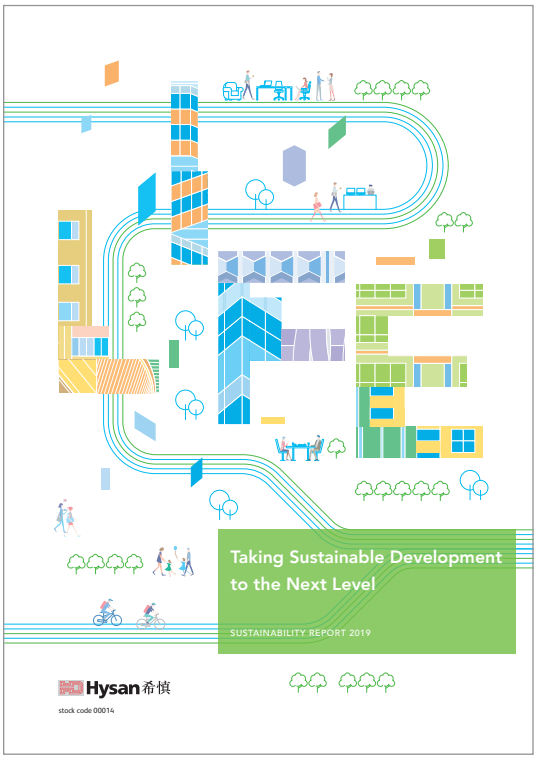
Sustainability Report 2019 – Summary

This section provides a summary of Hysan's sustainability strategy overview and accomplishments. The reporting period is from 1 January 2019 to 31 December 2019, unless otherwise specified. During this period, Hysan continued to comply fully with the requirements of the provisions contained in the Environmental, Social and Governance Reporting Guide, Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Since Hysan published its first corporate responsibility/sustainability report back in 2006, the global and local communities in which it plays a part have changed quite significantly. The establishment of a Board-level Sustainability Committee at the start of 2020 demonstrates to our stakeholders that Hysan is taking its corporate responsibility and sustainable development to the next level. The Committee will provide long-term direction and supervise sustainability-related matters, and it will also review and monitor management's execution of the sustainability projects.

In 2019, Hysan's Sustainability Executive Committee engaged an independent consultant specialized in advising sustainable business to conduct an overall review of Hysan's sustainability arrangement and performance, which included an extensive stakeholder engagement exercise. It yielded a range of material environmental, social and governance recommendations that aligned well with a number of Sustainability Development Goals ("SDG") as set by the United Nations General Assembly in 2015. The recommendations will be turned into specific, measurable and time bound goals for Hysan in 2020 and beyond.

Hysan takes pride in being not only a business of owning and managing properties, but a Business of Life. A Business of Life creates a sustainable community where people can live, work and enjoy for generations to come. Indeed, the "Life" within our Business of Life mindset has become the core of our strategic sustainable development principles, which Hysan follows in all its daily management and operational activities.



Sustainable Development Principles of "Life"

Leap into smart and eco-business

Smart use of natural resources and technology for reducing the environmental impacts of Hysan's daily operations

Integrate with our communities

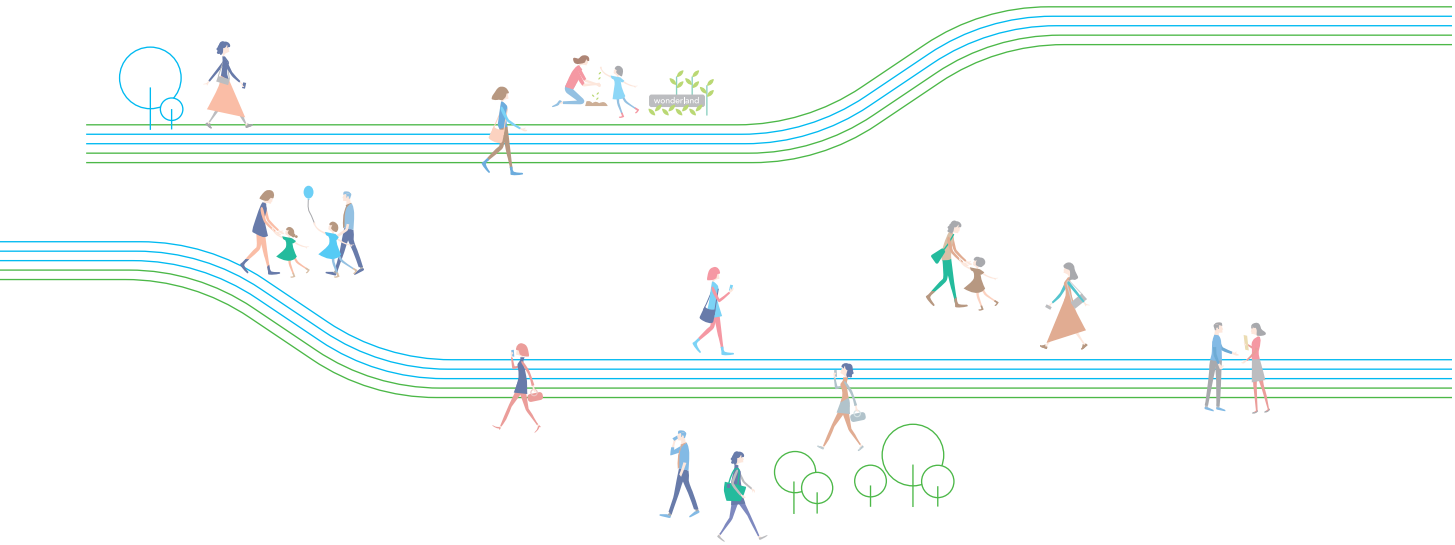
Integrate of community needs into our core business operations and partnerships, provide support to community projects, and develop sustainable partnership with our tenants

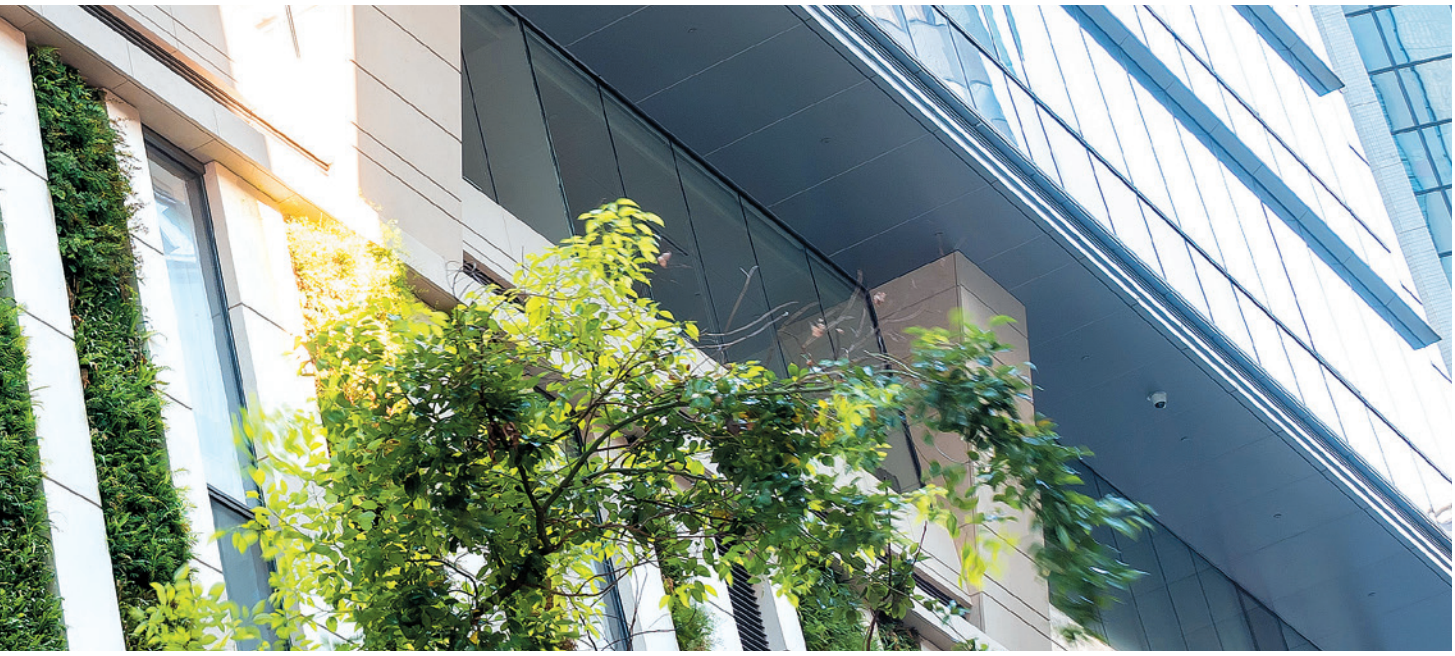
Foster partnership with our people

Build a diverse and inclusive workforce, treat our people fairly and help them realize their full potential

Establish strong corporate governance

Build a strong governance structure, maintain an ethical workplace and promote green finance



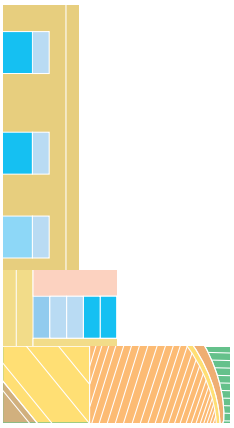


Sustainability Achievements in 2019

With a strong sustainability governance structure and continuous learning from industry norms and indices, Hysan regularly sets and reviews targets and effective measures across all its major business units in accordance with the principles of Life.

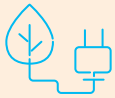
Hysan supports the United Nations SDGs and has identified 9 out of 17 SDGs that best align with Hysan's operations and sustainability objectives.

SUSTAINABLE DEVELOPMENT GOALS



Leap

into smart and eco-business



Energy Conservation and Renewables

- In progress to adopt ISO 50001 Energy Management System
- In progress to implement building analytics technology for energy performance enhancement
- Installed solar and/or LED lighting at Bamboo Grove and Lee Garden Three

Integrate

with our communities

Transformation of Spaces and Public Facilities

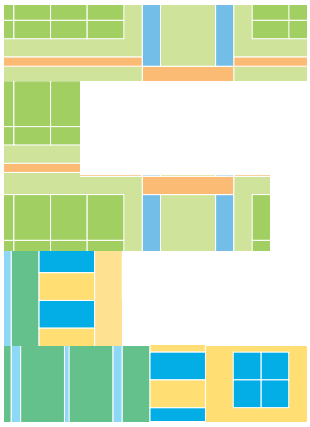
- Created an artistic and cultural space for the public, Urban Sky
- Commenced opening of a unique living and working space, Bizhouse
- Launched new mobile app for queries, navigation and parking
- Kick-started an art programme: local artists were invited to help revitalize the common areas of our buildings

Foster

partnership with our people

Human Resources Policies

- Enhanced communication and employee engagement channels.
- Enhanced employee benefits and compensation
- Upgraded work schedule for frontline supervisors from 6 to 5.5 days per week



Establish

strong corporate governance

Water Conservation

- Installed rainwater harvesting system at Lee Garden One and Bamboo Grove for irrigation and/or cleaning
- Replaced 100% of existing faucets of the renovation project at retail floors of Lee Garden Two with water efficient type

Waste Minimization and Diversion

- Saved 74,981 single-use plastic bottles through the installation of water refill stations
- Engaged 38 of our food and beverage tenants in "Be Straw Free Campaign"
- Supported local non-governmental organization EcoDrive on a "Go Green 2.0 x Enough Plastic Campaign"
- Installed reverse vending machine at Hysan Place to promote plastic bottle recycling

Green Building Recognition and Certifications

- Obtained Gold level under the United States Green Building Council's LEED (Core and Shell) and Final Platinum rating under BEAM Plus (New Buildings) for Lee Garden Three

Volunteering

- Organized a total of 15 charity activities with cumulated volunteer service hours of 812

Engaging Our Stakeholders and Surrounding Communities

- Organized and supported 77 community engagement events with over 36,000 participants
- Held 131 environmental education and outreach workshops under Green Wonders and Urban Farm
- Partnered with 14 NGOs and provided venue and media support

Employee Wellness

- Secured cumulative participation of over 740 colleagues in our employee wellness and recreation programme
- Turned Properties Services Division's Lee Garden Two workplace into a flex office space

Talent Attraction and Retention

- Upgraded mobile learning app with over 115 learning modules
- Acquired new intakes for Management Trainee Programme and Apprenticeship Scheme
- Designed a brand new Young Leaders Development Programme for employees with strong potential

Health and Safety

- Obtained "Excellent Class" or "Good Class" of Indoor Air Quality ("IAQ") Certification for 100% of public area in our retail and office buildings
- Achieved a significant increase in per-employee training hours from 11.05 to 20.39 (Head Office) and from 20.10 to 25.40 (Principal Operating Subsidiaries)

Corporate Governance

- Established the Board-level Sustainability Committee
- Updated 10 group-wide corporate governance related policies and procedures
- Added 5 new e-courses covering compliance to the Hysan mobile learning platform
- Organized a Corporate Disclosure Drill for key responsible departments regarding corporate disclosure responsibilities

Risk Management and Internal Control

- Assessed and reviewed the risk registers across business operations and functional areas
- Ensured continuous compliance by conducting half-yearly reporting with all departments
- Distributed internal control effectiveness questionnaires to all departments to review and certify the effectiveness of their departmental controls

Green Finance

- Issued a total of HK$1,550 million green bonds through private placements under the existing Medium-Term-Note Programme

Directors' Report

The Directors submitted their report together with the audited consolidated financial statements for the year ended 31 December 2019, which were approved by the Board of Directors on 20 February 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2019 to be property investment, management, and development. Details of the Group's principal subsidiaries, associates and a joint venture as at 31 December 2019 are set out in notes 17 to 19 respectively to the consolidated financial statements.

The turnover and results of the Group are principally derived from the leasing of investment properties located in Hong Kong. The Group's turnover and results by operating segment are set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 115.

The first interim dividend of HK27 cents per share, amounting to approximately HK$283 million, was paid to shareholders during the year.

The Board declared a second interim dividend of HK117 cents per share to the shareholders on the register of members on 6 March 2020, totalling approximately HK$1,221 million. The dividends declared and paid for ordinary shares in respect of the full year 2019 will total approximately HK$1,504 million, and the balance of the profit will be retained.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and material attributable factors relating to the development and likely future developments of the Group's business, are provided throughout this Annual Report, particularly in the following separate sections:

(a) Review of the Group's business – "Management's Discussion and Analysis";

(b) The Group's risk management framework, the principal risks the Group is facing and the controls in place – "Risk Management and Internal Control Report";

(c) Particulars of important events affecting the Group that have occurred since the end of the financial year 2019 – "Chairman's Statement", "Management's Discussion and Analysis" and "Notes to the Consolidated Financial Statements";

(d) Future development of the Group's business – "Key Facts" and "Chairman's Statement";

(e) Analysis using financial key performance indicators – "Management's Discussion and Analysis";

(f) Discussion of the Group's environmental policies and performance – "Sustainability Report 2019 – Summary";

(g) Discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group – "Corporate Governance Report", "Sustainability Report 2019 – Summary" and "Independent Auditor's Report"; and

(h) An account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends – "Directors' Report" and "Sustainability Report 2019 – Summary".

A detailed discussion of the Group's environmental policies and performance, its compliance with the relevant laws and regulations that have a significant impact on the Group, and its key relationships with stakeholders, is contained in the separate Sustainability Report 2019, which is available on the Company's website: www.hysan.com.hk.

These discussions form part of this Directors' Report.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 118 and 119 and note 30 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2019, using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

Details of the major investment properties of the Group as at 31 December 2019 are set out in the section under Schedule of Principal Properties of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and meets the requirements of the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Further information on the Company's corporate governance practices is set out in the following separate reports:

(a) "Corporate Governance Report" (pages 40 to 73) – this gives detailed information on the Company's compliance with the Corporate Governance Code and the relevant laws and regulations, its adoption of local and international best practices, Directors' service contracts, and Directors' interests in shares, contracts and competing business;

(b) "Audit and Risk Management Committee Report" (pages 74 to 77) – this sets out the terms of reference, work performed and findings of the Audit and Risk Management Committee for the year;

(c) "Remuneration Committee Report" (pages 78 to 85) – this gives detailed information on Directors' remuneration and interests (including information on Directors' compensation);

(d) "Nomination Committee Report" (pages 86 to 88) – this sets out the terms of reference, work performed and findings of the Nomination Committee for the year;

(e) "Sustainability Committee Report" (pages 89 to 90) – this sets out the terms of reference, work performed and findings of the Sustainability Committee; and

(f) "Risk Management and Internal Control Report" (pages 91 to 97) – this sets out the Company's framework for risk assessment and internal control (including control environment, control activities and work completed during the year).

Further information on the Company's sustainability policies and practices is contained in the separate Sustainability Report 2019, which is available on the Company's website: www.hysan.com.hk.

THE BOARD

The Board is currently chaired by Lee Irene Yun-Lien, Chairman. There are 9 other Non-Executive Directors.

Lee Irene Yun-Lien and Yang Chi Hsin Trevor served as alternate Directors to Lee Anthony Hsien Pin and Jebsen Hans Michael, respectively, throughout the year.

Save as otherwise mentioned above, other Directors whose names and biographies appear on pages 40 to 44 have been Directors of the Company throughout the year and up to the date of this report.

According to Article 97 of the Company's current Articles of Association ("Articles"), a Director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following Annual General Meeting ("AGM").

Under Article 114 of the Company's Articles, one-third (or such other number as may be required under applicable legislation) of the Directors; and where the applicable number is not an integral number, to be rounded upwards, of those who have been longest in office shall retire from office by rotation at each AGM. A retiring Director is eligible for re-election.

Particulars of Directors seeking re-election at the forthcoming AGM are set out in the related circular to shareholders.

The Company received from each Independent Non-Executive Director an annual confirmation of his or her independence with regard to each of the factors referred to in Rule 3.13(1) to (8) of the Listing Rules, and the Company considered all of them to be independent. The Nomination Committee also reviewed Directors' independence in a meeting held in November 2019. (See "Corporate Governance Report" and "Nomination Committee Report".)

The names of Directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report are available on the Company's website: www.hysan.com.hk.

DIRECTORS' INTERESTS IN SHARES

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in "Corporate Governance Report" on pages 40 to 73.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2019, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of the total no. of issued shares (Note)
Lee Hysan Company Limited	Beneficial owner	433,130,735	41.49
Silchester International Investors LLP	Investment manager	83,647,000	8.01
First Eagle Investment Management, LLC	Investment manager	52,460,214	5.03

Note:

The percentage was compiled based on the total number of issued shares of the Company as at 31 December 2019 (i.e. 1,043,820,891 ordinary shares).

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register that is required to be kept under Section 336 of the SFO as at 31 December 2019.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business and that were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 35 to the consolidated financial statements.

Some of these transactions also constituted "Continuing Connected Transactions" under the Listing Rules, as identified below.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions that were subject to the notification and announcement requirements but exempt from the circular and shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules during the year (the "Transactions"). Details of the Transactions required to be disclosed are set out as follows:

I. Lease granted by the Group

Lee Garden Two, 28 Yun Ping Road, Hong Kong ("Lee Garden Two")

The following lease arrangements were entered into by Barrowgate Limited ("Barrowgate"), a 65.36 % subsidiary of the Company and the property owner of Lee Garden Two, as landlord, with the following connected person:

Connected person	Date of agreement	Term	Premises	Annual consideration (Note a)
Jebsen and Company Limited (Note b)	22 June 2018 (Lease, Carpark Licence Agreements and Licence Agreements) (Note c)	3 years commencing from 1 September 2018	Office units on the 28th, 30th and 31st Floors, 4 carparking spaces and 2 portions of spaces near the carparking spaces	2019: HK$38,703,964 2020: HK$38,665,356 2021: HK$25,776,904 (on pro-rata basis) (Note d)

II. Provision of leasing and property management services to a non wholly-owned subsidiary regarding Lee Garden Two

(a) The following management agreement was entered into by Hysan Leasing Company Limited, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of leasing marketing and lease administration services in respect of Lee Garden Two:

Connected person	Date of agreement	Term	Premises	Consideration received during the year
Barrowgate Limited	(i) 22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK$9,072,656 (Note e)
	(ii) 20 March 2019	3 years commencing from 1 April 2019	Whole premises of Lee Garden Two	HK$21,589,050 (Note f)

(b) The following management agreement was entered into by Hysan Property Management Limited ("HPML"), a wholly-owned subsidiary of the Company, with Barrowgate for the provision of property management services to Lee Garden Two:

Connected person	Date of agreement	Term	Premises	Consideration received during the year
Barrowgate Limited	(i) 22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK$1,090,898 (Note e)
	(ii) 20 March 2019	3 years commencing from 1 April 2019	Whole premises of Lee Garden Two	HK$3,272,692 (Note f)

CONTINUING CONNECTED TRANSACTIONS continued

Notes:

(a) The annual considerations were based on prevailing rates of rental, operating charges and licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges and licence fees (as the case may be) are payable monthly in advance.

(b) Jebsen and Company Limited ("Jebsen and Company") is a beneficial substantial shareholder of Barrowgate and has an equity interest of 10% in Barrowgate. Jebsen Hans Michael, Non-Executive Director of the Company, is a controlling shareholder of Jebsen and Company.

(c) As the aggregated annual consideration under the lease and various licence agreements entered into with Jebsen and Company exceeds the applicable de minimis threshold under the Listing Rules, they constituted continuing connected transactions of the Company, being subject to announcement requirements but exempted from independent shareholders' approval requirements.

(d) Office monthly operating charges for Lee Garden Two were revised with effect from 1 January 2019 and further revised with effect from 1 September 2019.

(e) These represent the actual consideration received for the period from 1 January 2019 to 31 March 2019, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

(f) These represent the actual consideration received for the period from 1 April 2019 to 31 December 2019, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

All the Transactions were entered in the ordinary and usual course of business of the respective companies within the Group, after due negotiations on an arm's length basis with reference to the prevailing market conditions.

Announcements were published regarding the Transactions in accordance with the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules insofar as they are applicable.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 105 to 106 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Company's Internal Audit has reviewed the Transactions and the related internal control procedures, and concluded that the internal control procedures are adequate and effective. All Independent Non-Executive Directors of the Company have reviewed the Transactions and the report of the auditor and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

CONNECTED TRANSACTION

The following transaction entered into by the Group constituted a connected transaction. Details of the transaction are set out as follows:

Lease granted by the Group
Lee Garden Two, 28 Yun Ping Road, Hong Kong

The following lease was entered into by HPML, a wholly-owned subsidiary of the Company, with the following connected person:

Connected person	Date of agreement	Term	Premises	Annual consideration (Note a)
Barrowgate Limited	16 August 2019 (Lease) (Note b)	3 years commencing from 17 August 2019	Room 601 on the 6th Floor	2019: HK$2,056,066 (on pro-rata basis) 2020: HK$5,502,564 2021: HK$5,502,564 2022: HK$3,446,498 (on pro-rata basis)

CONNECTED TRANSACTION continued

Lee Garden Two, 28 Yun Ping Road, Hong Kong continued

Notes:

(a) The annual considerations were based on prevailing rates of rental and operating charges for each of the relevant financial years as provided in the relevant agreement. The rental and operating charges are payable monthly in advance.

(b) On an individual company level basis, HPML (being a lessee) recognized a right-of-use asset and a lease liability in its financial statements in accordance with HKFRS 16 "Leases" at the commencement date and Barrowgate (being a lessor) recognized the lease payments from the lease as lease income. From the perspective of HPML, the lease constituted a one-off connected transaction (i.e. an acquisition of right-of-use asset) under Rule 14A.24(1). As the applicable percentage ratios calculated based on the value of the right-of-use asset recognized by HPML under the lease fall below the applicable de minimis threshold under the Listing Rules, the lease constituted an exempted connected transaction of the Company.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

The lease, carpark licence agreements and licence agreements between Jebsen and Company and Barrowgate are considered a contract of significance under paragraph 15 of Appendix 16 to the Listing Rules due to the annual consideration having a percentage ratio of 0.97% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.04% and 0.12% respectively). Details of the transaction are set out under (I) of "Continuing Connected Transactions".

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 26.85% of the aggregate amount of purchases was attributable to the Group's 5 largest suppliers, with the largest supplier accounting for 9.59% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's 5 largest customers was less than 30% (being the Listing Rule disclosure threshold) of total turnover of the Group.

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued shares) had any interest in the Group's 5 largest suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company was authorized 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. During the year, 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.

During the year, the Company repurchased an aggregate of 3,000,000 ordinary shares for a total consideration of approximately HK$92 million on the Stock Exchange. Out of 3,000,000 ordinary shares repurchased during 2019, 2,730,000 shares were cancelled during the year ended 31 December 2019 while the remaining 270,000 ordinary shares were cancelled in February 2020. Details of the shares repurchased are as follows:

Month of repurchase in 2019	Number of ordinary shares repurchased	Consideration per share		Aggregate consideration paid HK$ million
		Highest HK$	Lowest 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
	3,000,000			92

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

ISSUANCE OF SECURITIES

During the year ended 31 December 2019, 49,000 shares were issued by the Company as a result of the exercise of share options granted under the share option schemes of the Company. For further details, please refer to the paragraphs headed "Movement of share options" in the Remuneration Committee Report.

During the year, we have issued several Fixed Rate Notes for general corporate purposes under the US$1.5 billion Medium Term Note Programme ("MTN Programme"), which was subsequently extended to US$2.5 billion in October 2019. These Fixed Rate Notes are unconditionally and irrevocably guaranteed by the Company. The list of these Fixed Rate Notes issued during the year is as below:

1. HK$300 million 3.33 % Fixed Rate Note due in January 2026
2. HK$500 million 3.64 % Fixed Rate Note due in March 2034
3. HK$500 million 3.10 % Fixed Rate Note due in April 2029
4. HK$250 million 3.05 % Fixed Rate Note due in June 2029
5. HK$400 million 2.90 % Fixed Rate Note due in July 2031
6. HK$250 million 2.81 % Fixed Rate Note due in August 2034
7. US$500 million 2.82 % Fixed Rate Notes due in September 2029

The issuer under the MTN Programme is Hysan (MTN) Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company. For further details of the above mentioned Fixed Rate Notes, please refer to note 27 to the consolidated financial statements. Save as disclosed above, the Group has not issued any debentures during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

DONATIONS

During the year, the Group made donations of approximately HK$0.1 million to charitable and non-profit-making organizations.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred by him or her in the execution of the duties of his or her office or in relation thereto. The Directors and Officers Liability Insurance ("D&O Insurance") taken out by the Company throughout the year provides adequate cover for such indemnities to all the Directors of the Company and its subsidiaries. The relevant provisions in the Articles and the D&O Insurance were in force during the financial year ended 31 December 2019 and as of the date of this report.

AUDITOR

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2020 AGM.

By Order of the Board
Lee Irene Yun-Lien
Chairman

Hong Kong, 20 February 2020

110 Directors' Responsibility for the Financial Statements

111 Independent Auditor's Report

115 Consolidated Statement of Profit or Loss

116 Consolidated Statement of Comprehensive Income

117 Consolidated Statement of Financial Position

118 Consolidated Statement of Changes in Equity

120 Consolidated Statement of Cash Flows

121 Significant Accounting Policies

132 Notes to the Consolidated Financial Statements

171 Financial Risk Management

181 Five-Year Financial Summary

183 Report of the Valuer

184 Schedule of Principal Properties

185 Shareholding Analysis

186 Shareholder Information

188 Corporate Information

FINANCIAL STATEMENTS, VALUATION AND OTHER INFORMATION

4

Directors' Responsibility for the Financial Statements

The Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

(a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;

(b) state the reasons for any significant departure from accounting standards; and

(c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Deloitte. 德勤

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 115 to 180, 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 ("HKSAs") 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.

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.

Key Audit Matters continued

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 comprise 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 recognized 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.

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 HKSAs 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.

As part of an audit in accordance with HKSAs, 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements continued

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.

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

	Notes	2019 HK$ million	2018 HK$ million
Turnover	4	**3,988**	3,890
Property expenses		**(536)**	(523)
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		**1,733**	288
Profit before taxation		**5,559**	6,800
Taxation	8	**(473)**	(481)
Profit for the year	9	**5,086**	6,319
Profit for the year attributable to:			
Owners of the Company		**4,845**	6,033
Non-controlling interests		**241**	286
		5,086	6,319
Earnings per share (expressed in HK cents)	14		
Basic		**463**	577
Diluted		**463**	576

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

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

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$ million	2018 HK$ million
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
		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
		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
		2,451	1,835
Net current assets		**7,195**	1,412
Total assets less current liabilities		**94,592**	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
		13,620	7,571
Net assets		**80,972**	77,637
Capital and reserves			
Share capital	29	**7,720**	7,718
Reserves		**69,930**	66,713
Equity attributable to owners of the Company		**77,650**	74,431
Non-controlling interests		**3,322**	3,206
Total equity		**80,972**	77,637

The consolidated financial statements on pages 115 to 180 were approved and authorized 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 HK$ million	Share options reserve HK$ million	General reserve HK$ million
As at 1 January 2019	**7,718**	**19**	**96**
Profit for the year	**–**	**–**	**–**
Net losses arising from hedging instruments	**–**	**–**	**–**
Reclassification of net losses to profit or loss	**–**	**–**	**–**
Gain on revaluation of properties held for own use	**–**	**–**	**–**
Deferred taxation arising on revaluation of properties held for own use (note 28)	**–**	**–**	**–**
Share of translation reserve of an associate	**–**	**–**	**–**
Total comprehensive income (expenses) for the year	**–**	**–**	**–**
Issue of shares under share option schemes	**2**	**–**	**–**
Recognition of equity-settled share-based payments	**–**	**4**	**–**
Repurchase of own shares	**–**	**–**	**–**
Forfeiture of unclaimed dividends	**–**	**–**	**–**
Dividends paid during the year (note 13)	**–**	**–**	**–**
As at 31 December 2019	**7,720**	**23**	**96**
As at 1 January 2018	7,692	21	96
Profit for the year	–	–	–
Net gains arising from hedging instruments	–	–	–
Reclassification of net gains to profit or loss	–	–	–
Gain on revaluation of properties held for own use	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 28)	–	–	–
Share of translation reserve of an associate	–	–	–
Total comprehensive (expenses) income for the year	–	–	–
Issue of shares under share option schemes	26	(5)	–
Recognition of equity-settled share-based payments	–	4	–
Forfeiture of share options	–	(1)	–
Dividends paid during the year (note 13)	–	–	–
As at 31 December 2018	7,718	19	96

Attributable to owners of the Company							
Investments revaluation reserve HK$ million	Hedging reserve HK$ million	Properties revaluation reserve HK$ million	Translation reserve HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total HK$ million
1	**(48)**	**456**	**106**	**66,083**	**74,431**	**3,206**	**77,637**
–	**–**	**–**	**–**	**4,845**	**4,845**	**241**	**5,086**
–	**(14)**	**–**	**–**	**–**	**(14)**	**–**	**(14)**
–	**43**	**–**	**–**	**–**	**43**	**–**	**43**
–	**–**	**25**	**–**	**–**	**25**	**–**	**25**
–	**–**	**(4)**	**–**	**–**	**(4)**	**–**	**(4)**
–	**–**	**–**	**(84)**	**–**	**(84)**	**–**	**(84)**
–	**29**	**21**	**(84)**	**4,845**	**4,811**	**241**	**5,052**
–	**–**	**–**	**–**	**–**	**2**	**–**	**2**
–	**–**	**–**	**–**	**–**	**4**	**–**	**4**
–	**–**	**–**	**–**	**(92)**	**(92)**	**–**	**(92)**
–	**–**	**–**	**–**	**1**	**1**	**–**	**1**
–	**–**	**–**	**–**	**(1,507)**	**(1,507)**	**(125)**	**(1,632)**
1	**(19)**	**477**	**22**	**69,330**	**77,650**	**3,322**	**80,972**
1	(43)	409	278	61,493	69,947	3,048	72,995
–	–	–	–	6,033	6,033	286	6,319
–	2	–	–	–	2	–	2
–	(7)	–	–	–	(7)	–	(7)
–	–	56	–	–	56	–	56
–	–	(9)	–	–	(9)	–	(9)
–	–	–	(172)	–	(172)	–	(172)
–	(5)	47	(172)	6,033	5,903	286	6,189
–	–	–	–	–	21	–	21
–	–	–	–	–	4	–	4
–	–	–	–	1	–	–	–
–	–	–	–	(1,444)	(1,444)	(128)	(1,572)
1	(48)	456	106	66,083	74,431	3,206	77,637

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$ million	2018 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)
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
Cash generated from operations		**3,300**	3,224
Hong Kong Profits Tax paid		**(98)**	(475)
Hong Kong Profits Tax refunded		**–**	2
Net cash from operating activities		**3,202**	2,751
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
Net cash used in investing activities		**(5,935)**	(990)
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)
Net cash from (used in) financing activities		**4,261**	(1,726)
Net increase in cash and cash equivalents		**1,528**	35
Cash and cash equivalents as at 1 January		**2,069**	2,034
Cash and cash equivalents as at 31 December	24	**3,597**	2,069

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.

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 recognized 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 recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

2. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE continued

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 recognized is not allocated to any asset that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized 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 recognized 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.

3. INVESTMENT PROPERTIES

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

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 capitalized 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 recognized in profit or loss in the period in which they arise.

An investment property is derecognized 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 derecognized.

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 recognized 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 recognized 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 recognized 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 recognized 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.

Depreciation is recognized 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.

4. PROPERTY, PLANT AND EQUIPMENT continued

An item of property, plant and equipment is derecognized 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 recognized 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 recognized 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized 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 recognized 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 recognized immediately in profit or loss.

Financial assets

All recognized financial assets are subsequently measured in their entirety at either amortized 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 amortized 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 recognized by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(a) Classification of financial assets continued

(i) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis for debt instruments measured subsequently at amortized cost and is included in the investment income as disclosed in note 6 of the Notes to the Consolidated Financial Statements section.

(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 amortized cost criteria (see (a) above) are measured at FVTPL. In addition, debt instruments that meet the amortized 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 amortized cost to FVTPL when the business model is changed such that the amortized 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 recognized in profit or loss. The net gain or loss recognized 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 recognized 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 recognized 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 recognized 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.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(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 recognized 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 amortized cost of the financial asset.

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 recognized through a loss allowance account.

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

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(d) Derecognition of financial assets

Financial assets are derecognized 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 recognized 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 amortized 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 amortized 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 recognized 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.

(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 recognized directly in profit or loss in the period in which they arise.

(iii) Financial liabilities at amortized cost

Financial liabilities (including accounts payable and accruals, amounts due to non-controlling interests, deposits from tenants and borrowings) are subsequently measured at amortized cost, using the effective interest method. Interest expense that is not capitalized 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 recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity instruments continued

(a) Classification and measurement continued

(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 recognized less, where appropriate, cumulative amortisation recognized over the guarantee period.

(b) Derecognition of financial liabilities

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

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 recognized 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 recognized 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.

6. FINANCIAL INSTRUMENTS continued

Hedge accounting continued

(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 recognized in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in other gains and losses.

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

Control is transferred over time and revenue is recognized 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 recognized at a point in time when the customer obtains control of the distinct goods or service.

Revenue from provision of property management services is recognized 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 recognized 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 recognized 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.

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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized in profit or loss in the period in which they are incurred.

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 recognized 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 recognized for all taxable temporary differences and deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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 recognized 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 realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

12. TAXATION continued

(b) Deferred tax continued

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 recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized 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 recognized in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognized 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 recognized in share options reserve will be transferred to retained profits.

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.

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 recognized 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.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") continued

New and amendments to HKFRSs in issue but not yet effective continued

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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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.

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 recognized 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 recognized 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

Segment turnover and results

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

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property development HK$ million	Consolidated 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**
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

5. SEGMENT INFORMATION continued

Segment turnover and results continued

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.

Segment assets

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

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property development HK$ million	Consolidated HK$ million
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**
Consolidated assets					**97,043**
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
Consolidated assets					87,043

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.

5. SEGMENT INFORMATION continued

Other segment information

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property development HK$ million	Consolidated 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:

	2019 HK$ million	2018 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
	154	78

7. FINANCE COSTS

	2019 HK$ million	2018 HK$ million
Finance costs comprise:		
Interest on unsecured bank loans	**43**	33
Interest on unsecured fixed rate notes	**254**	173
Total interest expenses	**297**	206
Other finance costs	**13**	11
	310	217
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
	313	222

8. TAXATION

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

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:

	2019 HK$ million	2018 HK$ million
Profit before taxation	**5,559**	6,800
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 recognized	**2**	11
Recognition of previously unrecognized tax losses	**(6)**	(8)
Overprovision in prior years	**–**	(2)
Taxation for the year	**473**	481

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).

9. PROFIT FOR THE YEAR

	2019 HK$ million	2018 HK$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**3**	3
Depreciation of property, plant and equipment	**22**	17
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	**9**	25
	(3,020)	(2,984)
Staff costs (including directors' emoluments)	**285**	245
Share of income tax of associates (included in share of results of associates)	**627**	122

10. OTHER COMPREHENSIVE (EXPENSES) INCOME

	2019 HK$ million	2018 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)
	21	47
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)
	29	(5)
Share of translation reserve of an associate	**(84)**	(172)
	(55)	(177)
Other comprehensive expenses for the year (net of tax)	**(34)**	(130)

Tax effect relating to other comprehensive (expenses) income:

	2019			2018		
	Before-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million	Before-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount 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)
	(30)	**(4)**	**(34)**	(121)	(9)	(130)

11. DIRECTORS' EMOLUMENTS

	2019 HK$ million	2018 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
	28	27

11. DIRECTORS' EMOLUMENTS continued

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:

	Directors' fees HK$'000 (Note e)	Basic salaries, housing and other allowances HK$'000 (Note d)	Bonus HK$'000 (Note d)	Share-based payments HK$'000 (Note g)	Retirement benefits scheme contributions HK$'000	Total HK$'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
	3,106	7,929	15,000	2,037	18	28,090

	Directors' fees HK$'000 (Note e)	Basic salaries, housing and other allowances HK$'000 (Note f)	Bonus HK$'000 (Note f)	Share-based payments HK$'000 (Note g)	Retirement benefits scheme contributions HK$'000	Total HK$'000
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
	2,615	7,694	14,616	1,762	18	26,705

11. DIRECTORS' EMOLUMENTS continued

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.

(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 (Note i)	Remuneration Committee	Nomination Committee	**2019 Total**	2018 Total
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000
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 (Note h)	**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.

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

11. DIRECTORS' EMOLUMENTS continued

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:

	2019 HK$ million	2018 HK$ million
Basic salaries, housing and other allowances	**21**	21
Bonus	**21**	20
Share-based payments (Note)	**4**	3
	46	44

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:

	Number of individuals	
	2019	2018
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**	–
	5	5

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.

	Number of individuals	
	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**	–
	6	7

13. DIVIDENDS

(a) Dividends recognized as distribution during the year:

	2019 HK$ million	2018 HK$ million
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
	1,507	1,444

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

	2019 HK$ million	2018 HK$ million
Second interim dividend (in lieu of a final dividend) – HK117 cents per share (2018: HK117 cents per share)	**1,221**	1,224

The second interim dividend is not recognized 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.

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:

	Earnings	
	2019 HK$ million	2018 HK$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	**4,845**	6,033

	Number of shares	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,046,186,877**	1,046,189,778
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**157,908**	501,942
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,046,344,785**	1,046,691,720

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.

14. EARNINGS PER SHARE continued

(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

	Profit HK$ million	Basic earnings per share HK cents	Diluted earnings per share 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)**
Underlying Profit	**2,587**	**247**	**247**
Recurring Underlying Profit	**2,587**	**247**	**247**

For the year ended 31 December 2018

	Profit HK$ million	Basic earnings per share HK cents	Diluted earnings per share 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
Underlying Profit	2,536	242	242
Recurring Underlying Profit	2,536	242	242

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

	2019 HK$ million	2018 HK$ million
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 recognized in profit or loss – unrealized	**792**	3,532
As at 31 December	**79,116**	77,442

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 categorized 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.

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.

	Retail HK$ million	Office HK$ million	Residential HK$ million	Total HK$ million
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 recognized in profit or loss – unrealized	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 recognized in profit or loss – unrealized	**(851)**	**1,305**	**338**	**792**
As at 31 December 2019	**35,059**	**35,498**	**8,559**	**79,116**

15. INVESTMENT PROPERTIES continued

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.

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

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

16. PROPERTY, PLANT AND EQUIPMENT continued

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 categorized 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.

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.

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

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.

17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY continued

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

Barrowgate Limited

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

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES

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

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:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
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".

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES continued

The summarized consolidated financial information in respect of the Group's material associate is set out below. The summarized 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

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

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

	2019 HK$ million	2018 HK$ million
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:

	2019 HK$ million	2018 HK$ million
Investment in a joint venture		
Unlisted shares, at cost	–	–
Deemed capital contribution in a joint venture (Note a)	143	145
	143	145
Loans to a joint venture classified as:		
Non-current assets (Note b)	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.

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

Name of joint venture	Place of incorporation and operation	Class of share held	Effective ownership interest and voting rights held by the Group	Principal activities
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 recognized the investment in Strongbod as a joint venture.

The summarized consolidated financial information in respect of the Group's material joint venture is set out below. The summarized 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

	2019 HK$ million	2018 HK$ million
Current assets	3,896	3,618
Current liabilities	(41)	(17)
Non-current liabilities	(3,855)	(3,601)

19. INVESTMENT IN A JOINT VENTURE AND LOANS TO A JOINT VENTURE continued

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

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

20. OTHER FINANCIAL INVESTMENTS

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

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").

21. DEBT SECURITIES

	2019 HK$ million	2018 HK$ million
Debt securities, at amortized cost:		
– listed in Hong Kong	172	196
– listed overseas	–	31
Total	172	227
Analysed for reporting purposes as:		
Current assets	–	227
Non-current assets	172	–
	172	227

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

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

(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 million**	**Notional amount HK$ million**	**Fair value HK$ million**	Average exchange rate*	Foreign currency	Notional amount million	Notional amount HK$ million	Fair value HK$ million
Forward foreign exchange contracts										
Sell US dollars ("USD") (Note a)										
Within 1 year	**–**	**–**	**–**	**–**	**–**	7.7996	USD	28	218	–
Cross currency swaps										
Hedging of USD fixed rate notes (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.

22. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges continued

Foreign currency risk continued

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 recognized 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)**	(5)	Investment income
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.

23. ACCOUNTS AND OTHER RECEIVABLES

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

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.

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

	2019 HK$ million	2018 HK$ million
Accounts payable	**319**	257
Interest payable	**131**	74
Other payables	**484**	542
	934	873

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.

27. BORROWINGS

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

	2019 HK$ million	2018 HK$ million
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.

27. BORROWINGS continued

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	**2.81 – 5.38**	**2.82 – 3.50**	3.66 – 5.38	3.50

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) recognized 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	**956**	**90**	**(121)**	**925**

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 recognized in respect of HK$735 million (2018: HK$815 million) of such losses. No deferred tax asset has been recognized 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.

29. SHARE CAPITAL

	Number of shares	Share capital HK$ million
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
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 (Note)	**(2,730,000)**	**–**
As at 31 December 2019	**1,043,820,891**	**7,720**

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

Month of repurchase in 2019	Number of ordinary shares repurchased (Note)	Consideration per share		Aggregate consideration paid HK$ million
		Highest HK$	Lowest 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
	3,000,000			92

Note:

The Company was authorized 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.

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 HK$ million	2018 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
	4,504	5,849
Current assets		
Other receivables	8	4
Amounts due from subsidiaries	10,747	10,131
Cash and cash equivalents	22	1
	10,777	10,136
Current liabilities		
Other payables and accruals	79	64
Amounts due to subsidiaries	1,949	2,753
	2,028	2,817
Net current assets	8,749	7,319
Net assets	13,253	13,168
Capital and reserves		
Share capital (note 29)	7,720	7,718
Reserves	5,533	5,450
Total equity	13,253	13,168

The Company's statement of financial position was approved and authorized 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

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY continued

Movement in the Company's reserve

	Share options reserve HK$ million	General reserve HK$ million (Note a)	Retained profits HK$ million	Total HK$ million
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 (note 13)	–	–	(1,444)	(1,444)
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 (note 13)	**–**	**–**	**(1,507)**	**(1,507)**
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.

31. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES

	2019 HK$ million	2018 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)
	(3,594)	(3,828)

31. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES continued

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 HK$ million	Time deposits HK$ million	Other financial assets/ liabilities HK$ million	Bank loans HK$ million	Fixed rate notes HK$ million	Interest payable HK$ million	Amounts due to non-controlling interests HK$ million	Total 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
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)**
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.

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:

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

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:

	2019 HK$ million
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**
	10,066

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

	2018 HK$ million
Within one year	3,180
In the second year to fifth year inclusive	4,960
Over five years	857
	8,997

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.

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

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.

(b) Compensation of key management personnel

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

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

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:

	2019 HK$ million	2018 HK$ million
Guarantees given to banks in respect of:		
Banking facilities of a joint venture attributable to the Group		
– Utilized	**1,147**	999
– Unutilized	**1,853**	2,001
	3,000	3,000

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.

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.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(a) Equity-settled share option scheme continued

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.

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.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(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: Granted	Exercised	Cancelled/ lapsed (Note b)	Balance as at 31.12.2019
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**
				1,322,667	–	–	–	**1,322,667**

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Name	Date of grant	Exercise price HK$	Exercise period (Note a)	Balance as at 1.1.2019	Changes during the year: Granted	Exercised	Cancelled/ lapsed (Note b)	Balance as at 31.12.2019
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**
				1,983,867	**1,286,200**	**(49,000)**	**(51,000)**	**3,170,067**
Exercisable at the end of the year								**2,457,059**

Notes:

(a) 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.

(b) The options lapsed during the year upon resignations of certain eligible employees.

(c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(d) 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.

(e) 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.

(f) 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.

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.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

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 as at 1.1.2018	Changes during the year: Granted	Exercised	Cancelled/ lapsed (Note b)	Balance 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
				1,777,335	**–**	**(434,001)**	**(20,667)**	**1,322,667**

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Name	Date of grant	Exercise price HK$	Exercise period (Note a)	Balance as at 1.1.2018	Changes during the year: Granted	Exercised	Cancelled/ lapsed (Note b)	Balance 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
				1,461,668	**956,200**	**(242,999)**	**(191,002)**	**1,983,867**
Exercisable at the end of the year								**1,791,662**

Notes:

(a) 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.

(b) The options lapsed during the year upon resignations of certain eligible employees.

(c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(d) 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.

(e) 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.

(f) 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.

(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.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(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 recognized 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 recognized 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.

The inputs into the Model were as follows:

Date of grant	**29.3.2019**	**22.2.2019**	29.3.2018	1.3.2018
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 recognized 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:

Internal credit rating	Description	Accounts receivables	Other financial assets
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

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.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(a) Credit risk and impairment assessment continued

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.

	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 amortized 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.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(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.

	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)**
	(14,684)	**(17,427)**	**(2,446)**	**(916)**	**(6,284)**	**(7,781)**
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)
	(8,418)	(9,397)	(1,947)	(995)	(5,726)	(729)

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.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk continued

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	–

(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.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(c) Interest rate risk continued

Sensitivity analysis continued

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	**(17)**	**4**	**4**	**(1)**
As at 31 December 2018	(14)	4	7	(2)

(d) Currency risk

The Group aims to minimize 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	
	US$ million	**Total equivalent to HK$ million**	US$ million	Total equivalent to HK$ million
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.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(d) Currency risk continued

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.

2. CATEGORIES OF FINANCIAL INSTRUMENTS

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

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 recognized 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 recognized financial assets HK$ million	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position HK$ million	Net amounts of financial assets presented in the consolidated statement of financial position HK$ million
As at 31 December 2019			
Derivatives under hedge accounting	**7**	**–**	**7**
As at 31 December 2018			
Derivatives under hedge accounting	–	–	–

(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 HK$ million	Financial liabilities not set off in the consolidated statement of financial position HK$ million	Net amount HK$ million
As at 31 December 2019			
Counterparty A	**7**	**(7)**	**–**
As at 31 December 2018			
Counterparty A	–	–	–

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

	Gross amounts of recognized financial liabilities HK$ million	Gross amounts of recognized financial assets set off in the consolidated statement of financial position HK$ million	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$ million
As at 31 December 2019			
Derivatives under hedge accounting	**(46)**	**–**	**(46)**
As at 31 December 2018			
Derivatives under hedge accounting	(26)	–	(26)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS continued

(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 HK$ million	Financial assets not set off in the consolidated statement of financial position HK$ million	Net amount HK$ million
As at 31 December 2019			
Counterparty A	**(19)**	**7**	**(12)**
Counterparty B	**(5)**	**–**	**(5)**
Counterparty C	**(12)**	**–**	**(12)**
Counterparty D	**(10)**	**–**	**(10)**
	(46)	**7**	**(39)**
As at 31 December 2018			
Counterparty A	(26)	–	(26)

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 amortized 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 amortized 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 categorized 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 categorized 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.

4. FAIR VALUE MEASUREMENT continued

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

	2019			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Financial liabilities				
Derivatives under hedge accounting				
Cross currency swaps	–	46	–	46

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

4. FAIR VALUE MEASUREMENT continued

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

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

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

The unrealized fair value gain of HK$12 million (2018: unrealized 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.

(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:

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

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

Five-Year Financial Summary

For the year ended 31 December

	2019 HK$ million (Note 1)	2018 HK$ million (Note 2)	2017 HK$ million	2016 HK$ million	2015 HK$ million
Results					
Turnover	**3,988**	3,890	3,548	3,535	3,430
Property expenses	**(536)**	(523)	(449)	(428)	(414)
Gross profit	**3,452**	3,367	3,099	3,107	3,016
Other income	**–**	–	261	–	–
Investment income	**154**	78	69	50	54
Other gains and losses	**10**	(16)	–	–	–
Administrative expenses	**(269)**	(227)	(247)	(219)	(234)
Finance costs	**(313)**	(222)	(158)	(178)	(204)
Change in fair value of investment properties	**792**	3,532	853	(1,187)	695
Share of results of associates	**1,733**	288	220	237	246
Profit before taxation	**5,559**	6,800	4,097	1,810	3,573
Taxation	**(473)**	(481)	(484)	(463)	(438)
Profit for the year	**5,086**	6,319	3,613	1,347	3,135
Non-controlling interests	**(241)**	(286)	23	(129)	(232)
Profit attributable to owners of the Company	**4,845**	6,033	3,636	1,218	2,903
Underlying profit for the year	**2,587**	2,536	2,491	2,369	2,283
Recurring underlying profit for the year	**2,587**	2,536	2,349	2,369	2,283
Dividends					
Dividends paid	**1,507**	1,444	1,411	1,394	1,330
Dividends declared	**1,221**	1,224	1,161	1,139	1,122
Dividends per share (HK cents)	**144**	144	137	135	132
Earnings per share (HK$), based on:					
Profit for the year					
– basic	**4.63**	5.77	3.48	1.16	2.73
– diluted	**4.63**	5.76	3.48	1.16	2.73
Underlying profit for the year – basic	**2.47**	2.42	2.38	2.26	2.15
Recurring underlying profit for the year – basic	**2.47**	2.42	2.25	2.26	2.15
Performance indicators					
Net debt to equity	**4.1%**	4.7%	5.0%	5.4%	3.0%
Net interest coverage (times)	**17.0x**	18.1x	17.1x	20.5x	19.5x
Net asset value per share (HK$)	**74.39**	71.12	66.89	64.56	64.48
Net debt per share (HK$)	**3.06**	3.35	3.37	3.50	1.94
Year-end share price (HK$)	**30.55**	37.25	41.45	32.05	31.75

As at 31 December

	2019 HK$ million (Note 1)	2018 HK$ million (Note 2)	2017 HK$ million	2016 HK$ million	2015 HK$ million
Assets and liabilities					
Investment properties	**79,116**	77,442	72,470	69,633	69,810
Investments in associates	**5,189**	3,708	3,779	3,497	3,683
Loans to associates	**11**	11	10	–	–
Investment in a joint venture	**143**	145	147	145	–
Loans to a joint venture	**1,090**	1,062	982	1,891	–
Other financial investments	**601**	294	21	–	–
Time deposits, cash and cash equivalents	**9,332**	2,817	2,662	2,630	2,804
Other assets	**1,561**	1,564	2,049	2,225	2,491
Total assets	**97,043**	87,043	82,120	80,021	78,788
Borrowings	**(12,529)**	(6,322)	(6,185)	(6,293)	(4,859)
Taxation	**(1,341)**	(962)	(945)	(863)	(803)
Other liabilities	**(2,201)**	(2,122)	(1,989)	(2,180)	(1,758)
Total liabilities	**(16,071)**	(9,406)	(9,119)	(9,336)	(7,420)
Net assets	**80,972**	77,637	73,001	70,685	71,368
Non-controlling interests	**(3,322)**	(3,206)	(3,048)	(3,195)	(3,196)
Shareholders' funds	**77,650**	74,431	69,953	67,490	68,172

Definitions:

(1) Underlying profit for the year:

arrived at by excluding from profit attributable to owners of the Company unrealized fair value changes on investment properties and items not generated from the Group's core property investment business

(2) Recurring underlying profit for the year:

performance indicator of the Group's core property investment business and is arrived at by excluding from underlying profit for the year items that are non-recurring in nature

(3) Net debt to equity:

borrowings less time deposits, cash and cash equivalents divided by shareholders' funds

(4) Net interest coverage:

gross profit less administrative expenses before depreciation divided by net interest expenses

(5) Net asset value per share:

shareholders' funds divided by number of issued shares as at year end

(6) Net debt per share:

borrowings less time deposits, cash and cash equivalents divided by number of issued shares at year end

Notes:

1. In 2019, the Group has applied HKFRS 16. Accordingly, certain comparative information for the years ended 31 December 2015, 2016, 2017 and 2018 may not be comparable to the year ended 31 December 2019 as such comparative information was prepared under HKAS 17.
2. In 2018, the Group has applied the remaining sections of HKFRS 9. Accordingly, certain comparative information for the years ended 31 December 2015, 2016 and 2017 may not be comparable to the years ended 31 December 2018 and 2019 as such comparative information was prepared under HKAS 39.

Report of the Valuer

To the Board of Directors
Hysan Development Company Limited

Dear Sirs,

Annual Revaluation of Investment Properties as at 31 December 2019

In accordance with your appointment of Knight Frank Petty Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the market value of the investment properties as at 31 December 2019 was in the approximate sum of Hong Kong Dollars Seventy-Nine Billion One Hundred and Sixteen Million Only (ie HK$79, 116 million).

The completed investment properties have been valued individually, on market value basis, on the basis of capitalisation of the 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 sales comparables.

Yours faithfully
Knight Frank Petty Limited

Hong Kong, 12 February 2020

Schedule of Principal Properties

As at 31 December 2019

INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
1. **Bamboo Grove** 74-86 Kennedy Road Mid-Levels Hong Kong	I.L. 8624	Residential	Medium term lease	100 %
2. **Hysan Place** 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100 %
3. **Lee Garden One** 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100 %
4. **Lee Garden Two** 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36 %
5. **Lee Garden Three** 1 Sunning Road Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100 %
6. **Lee Garden Five** 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100 %
7. **Lee Garden Six** 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100 %
8. **Lee Theatre Plaza** 99 Percival Street Causeway Bay Hong Kong	I.L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100 %
9. **Leighton Centre** 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100 %
10. **One Hysan Avenue** 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100 %

Shareholding Analysis

SHARE CAPITAL

As at 31 December 2019

	HK$	Number of Ordinary Shares
Issued and fully paid-up capital	7,720,110,519	1,043,820,891

There was one class of ordinary shares with equal voting rights.

DISTRIBUTION OF SHAREHOLDINGS

(As at 31 December 2019, as per register of members of the Company)

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of ordinary shares	% of the total no. of issued shares (Note)
5,000 or below	2,261	72.24	3,578,302	0.34
5,001 – 50,000	752	24.03	11,626,859	1.11
50,001 – 100,000	67	2.14	5,010,419	0.48
100,001 – 500,000	42	1.34	8,651,487	0.83
500,001 – 1,000,000	2	0.06	1,131,041	0.11
Above 1,000,000	6	0.19	1,013,822,783	97.13
Total	**3,130**	**100**	**1,043,820,891**	**100**

TYPES OF SHAREHOLDERS

(As at 31 December 2019, as per register of members of the Company)

Type of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Lee Hysan Company Limited	433,130,735	41.49
Other corporate shareholders	582,680,259	55.82
Individual shareholders	28,009,897	2.69
Total	**1,043,820,891**	**100**

LOCATION OF SHAREHOLDERS

(As at 31 December 2019, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Hong Kong	1,041,689,353	99.796
United States and Canada	1,898,751	0.181
United Kingdom	17,085	0.002
Others	215,702	0.021
Total	**1,043,820,891**	**100**

Note:

The percentages was compiled based on the total number of issued shares of the Company as at 31 December 2019 (i.e. 1,043,820,891 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	20 February 2020
Ex-dividend date for second interim dividend	4 March 2020
Closure of register of members and record date for second interim dividend	6 March 2020
Dispatch of second interim dividend warrants	(on or about) 20 March 2020
Closure of register of members for Annual General Meeting	8 to 13 May 2020
Annual General Meeting	13 May 2020
2020 interim results to be announced	10 August 2020*

* subject to change

DIVIDEND

The Board declares the payment of a second interim dividend of HK117 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Friday, 6 March 2020.

The register of members will be closed on Friday, 6 March 2020, for the purpose of determining shareholders' entitlement to the second interim dividend, on which date no transfer of shares will be registered. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Thursday, 5 March 2020.

Dividend warrants will be dispatched to shareholders on or about Friday, 20 March 2020.

The register of members will also be closed from Friday, 8 May 2020 to Wednesday, 13 May 2020, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on 13 May 2020, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Thursday, 7 May 2020.

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrar, Tricor Standard Limited:

Tricor Standard Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980 1333
Facsimile: (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrar promptly of any change of their address.

The Annual Report is printed in English and Chinese language and is available on our website at www.hysan.com.hk. Shareholders may at any time choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hysan.com.hk.

INVESTOR RELATIONS

For enquiries relating to investor relations, please email to investor@hysan.com.hk or write to the Company at:

Investor Relations
Hysan Development Company Limited
49/F. (Reception: 50/F.), Lee Garden One
33 Hysan Avenue
Hong Kong
Telephone: (852) 2895 5777
Facsimile: (852) 2577 5153

Corporate Information

BOARD OF DIRECTORS

Lee Irene Yun-Lien *(Chairman)*
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Wong Ching Ying Belinda**
Jebsen Hans Michael B.B.S.*
(Yang Chi Hsin Trevor as his alternate)
Lee Anthony Hsien Pin*
(Lee Irene Yun-Lien as his alternate)
Lee Chien*
Lee Tze Hau Michael*

AUDIT AND RISK MANAGEMENT COMMITTEE

Poon Chung Yin Joseph***(Chairman)*
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lee Anthony Hsien Pin*

REMUNERATION COMMITTEE

Fan Yan Hok Philip** *(Chairman)*
Poon Chung Yin Joseph**
Lee Tze Hau Michael*

NOMINATION COMMITTEE

Lee Irene Yun-Lien *(Chairman)*
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Lee Chien*

* Non-Executive Director
** Independent Non-Executive Director

SUSTAINABILITY COMMITTEE

Jebsen Hans Michael B.B.S.* *(Chairman)*
Fan Yan Hok Philip**
Wong Ching Ying Belinda**

COMPANY SECRETARY

Cheung Ka Ki Maggie

REGISTERED OFFICE

49/F. (Reception: 50/F)
Lee Garden One
33 Hysan Avenue
Hong Kong

OUR WEBSITE

Press releases and other information of the Group can be found at our website: www.hysan.com.hk.

SHARE LISTING

Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

STOCK CODE

The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticker Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

AUDITOR

Deloitte Touche Tohmatsu

DESIGN: FORMAT LIMITED www.format.com.hk

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