

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.

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 89 to 155, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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 comprises retail, office and residential properties mainly located in Causeway Bay, Hong Kong and is stated at fair value of HK\$74,993 million, accounting for approximately 68% of the Group's total assets as at 31 December 2020 with a fair value loss of HK\$4,903 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 capitalization rates and reversionary income potential of the investment properties in determining the fair values.

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.

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 capitalization rates adopted are comparable to the market.

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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

25 February 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Turnover	4	3,710	3,988
Property expenses		(490)	(536)
Gross profit		3,220	3,452
Investment income	6	272	154
Other gains and losses		5	10
Administrative expenses		(268)	(269)
Finance costs	7	(546)	(313)
Change in fair value of investment properties		(4,903)	792
Share of results of associates		225	1,733
(Loss) profit before taxation		(1,995)	5,559
Taxation	8	(353)	(473)
(Loss) profit for the year	9	(2,348)	5,086
(Loss) profit for the year attributable to:			
Owners of the Company		(2,547)	4,845
Perpetual capital securities holders		288	–
Other non-controlling interests		(89)	241
		(2,348)	5,086
(Loss) earnings per share (expressed in HK cents)	14		
Basic		(244)	463
Diluted		(244)	463

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020 HK\$ million	2019 HK\$ million
(Loss) profit for the year		(2,348)	5,086
Other comprehensive (expenses) income	10		
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
(Loss) gain on revaluation of properties held for own use (net of tax)		(1)	21
Change in fair value of equity instruments at fair value through other comprehensive income ("FVTOCI")		5	–
		4	21
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net adjustments to hedging reserve		(122)	29
Share of translation reserve of an associate		341	(84)
		219	(55)
Other comprehensive income (expenses) for the year (net of tax)		223	(34)
Total comprehensive (expenses) income for the year		(2,125)	5,052
Total comprehensive (expenses) income attributable to:			
Owners of the Company		(2,324)	4,811
Perpetual capital securities holders		288	–
Other non-controlling interests		(89)	241
		(2,125)	5,052

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Non-current assets			
Investment properties	15	74,993	79,116
Property, plant and equipment	16	834	776
Investments in associates	18	5,577	5,189
Loans to associates	18	11	11
Investment in a joint venture	19	125	143
Loans to a joint venture	19	1,153	1,090
Other financial investments	20	789	601
Debt securities	21	454	172
Deferred tax asset	28	55	–
Other financial assets	22	1	8
Other receivables	23	361	291
		84,353	87,397
Current assets			
Accounts and other receivables	23	467	314
Time deposits	24	10,546	5,735
Cash and cash equivalents	24	14,389	3,597
		25,402	9,646
Current liabilities			
Accounts payable and accruals	25	931	934
Deposits from tenants		377	316
Amounts due to non-controlling interests	26	217	220
Borrowings	27	–	565
Taxation payable		27	416
		1,552	2,451
Net current assets			
Total assets less current liabilities			
		108,203	94,592
Non-current liabilities			
Borrowings	27	18,970	11,964
Other financial liabilities	22	183	46
Deposits from tenants		597	685
Deferred tax liabilities	28	1,004	925
		20,754	13,620
Net assets			
Capital and reserves			
Share capital	30	7,722	7,720
Reserves		65,958	69,930
Equity attributable to owners of the Company			
Perpetual capital securities	29	10,657	–
Other non-controlling interests		3,112	3,322
Total equity			
		87,449	80,972

The consolidated financial statements on pages 89 to 155 were approved and authorized for issue by the Board of Directors on 25 February 2021 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lee T.H. Michael
Director

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company			
	Share capital HK\$ million	Share options reserve HK\$ million	General reserve HK\$ million	Investments revaluation reserve HK\$ million
As at 1 January 2020	7,720	23	96	1
Loss for the year	–	–	–	–
Net losses arising from hedging instruments	–	–	–	–
Reclassification of net losses to profit or loss	–	–	–	–
Loss on revaluation of properties held for own use	–	–	–	–
Change in fair value of equity investment at FVTOCI	–	–	–	5
Share of translation reserve of an associate	–	–	–	–
Total comprehensive (expenses) income for the year	–	–	–	5
Issue of shares under share option schemes	2	–	–	–
Recognition of equity-settled share-based payments	–	4	–	–
Repurchase of own shares	–	–	–	–
Forfeiture of unclaimed dividend	–	–	–	–
Dividends paid during the year (note 13)	–	–	–	–
Distribution to perpetual capital securities holders (note 29)	–	–	–	–
Issue of perpetual capital securities (note 29)	–	–	–	–
Transaction costs in relation to the issuance of perpetual capital securities	–	–	–	–
As at 31 December 2020	7,722	27	96	6
As at 1 January 2019 (audited)	7,718	19	96	1
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	1

Attributable to owners of the Company							
Hedging reserve HK\$ million	Properties revaluation reserve HK\$ million	Translation reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Perpetual capital securities HK\$ million	Other non- controlling interests HK\$ million	Total HK\$ million
(19)	477	22	69,330	77,650	–	3,322	80,972
–	–	–	(2,547)	(2,547)	288	(89)	(2,348)
(150)	–	–	–	(150)	–	–	(150)
28	–	–	–	28	–	–	28
–	(1)	–	–	(1)	–	–	(1)
–	–	–	–	5	–	–	5
–	–	341	–	341	–	–	341
(122)	(1)	341	(2,547)	(2,324)	288	(89)	(2,125)
–	–	–	–	2	–	–	2
–	–	–	–	4	–	–	4
–	–	–	(96)	(96)	–	–	(96)
–	–	–	1	1	–	–	1
–	–	–	(1,502)	(1,502)	–	(121)	(1,623)
–	–	–	–	–	(135)	–	(135)
–	–	–	–	–	10,504	–	10,504
–	–	–	(55)	(55)	–	–	(55)
(141)	476	363	65,131	73,680	10,657	3,112	87,449
(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)
(19)	477	22	69,330	77,650	–	3,322	80,972

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Operating activities			
(Loss) profit before taxation		(1,995)	5,559
Adjustments for:			
Net interest income		(272)	(154)
Other gains and losses		10	(7)
Depreciation of property, plant and equipment		24	22
Share-based payment expenses		4	4
Finance costs		546	313
Change in fair value of investment properties		4,903	(792)
Share of results of associates		(225)	(1,733)
Operating cash flows before movements in working capital		2,995	3,212
Increase in accounts and other receivables		(200)	(61)
(Decrease) increase in accounts payable and accruals		(10)	148
(Decrease) increase in deposits from tenants		(27)	1
Cash generated from operations		2,758	3,300
Hong Kong Profits Tax paid		(718)	(98)
Net cash from operating activities		2,040	3,202
Investing activities			
Payments in respect of investment properties		(892)	(939)
Purchases of property, plant and equipment		(21)	(17)
Dividends received from an associate		177	166
Advance to a joint venture		(18)	–
Payment in respect of other financial investments		(267)	(295)
Return of capital in respect of other financial investment		81	–
Proceeds upon maturity of debt securities		–	227
Purchases of debt securities		(286)	(172)
Interest received		248	86
Additions to time deposits with original maturity over three months		(32,559)	(5,739)
Proceeds upon maturity of time deposits with original maturity over three months		27,744	748
Net cash used in investing activities		(5,793)	(5,935)
Financing activities			
Payment of finance costs		(510)	(304)
New bank loans	32	600	470
Repayment of bank loans	32	(250)	–
Issuance of perpetual capital securities, net of transaction costs		10,449	–
Issuance of fixed rate notes	32	6,676	6,120
Repayment of fixed rate note	32	(565)	(300)
Repayment to non-controlling interests of a subsidiary	32	(3)	(3)
Proceeds on exercise of share options		2	2
Payment on repurchase of own shares		(96)	(92)
Dividends paid		(1,502)	(1,507)
Distribution paid to perpetual capital securities holders		(135)	–
Dividends paid to other non-controlling interests		(121)	(125)
Net cash from financing activities		14,545	4,261
Net increase in cash and cash equivalents		10,792	1,528
Cash and cash equivalents as at 1 January		3,597	2,069
Cash and cash equivalents as at 31 December	24	14,389	3,597

Significant Accounting Policies

For the year ended 31 December 2020

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”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 (including perpetual capital securities holders and non-controlling interests in a subsidiary) 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 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 recognize 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.

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.

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 recognition, 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.

(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.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(a) Classification of financial assets continued

(ii) Financial assets at FVTPL continued

Debt instruments that do not meet the amortized cost criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI (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 recognizing 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 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.

(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, 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 recognizes 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 recognizes 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.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(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.

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 recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of accounts 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.

(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 an equity instruments designated at 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 an equity instruments designated 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.

6. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity instruments continued

(a) Classification and measurement continued

(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.

Perpetual capital securities, which includes no contractual obligation for the Group to deliver cash or other financial assets to the holders is classified as equity instrument and is initially recorded at the proceeds received.

(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 have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

6. FINANCIAL INSTRUMENTS continued

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.

(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 recognizes 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 recognizes 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

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 on or after the date of initial application or arising from business combinations, 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.

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.

SIGNIFICANT ACCOUNTING POLICIES continued

For the year ended 31 December 2020

8. LEASES continued

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.

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.

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 (loss) 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.

12. TAXATION continued

(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 utilize 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.

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, 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.

The 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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 addresses of the registered office and principal place of business of the Company are disclosed in the “Shareholder Information” section of the annual report.

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 the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

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 and the related Amendments ⁵
Amendments to HKFRS 16	Covid-19-Related Rent Concession ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ⁵
Amendments to HKAS 16	Property, Plant and Equipment- Proceeds before Intended Use ⁴
Amendments to HKAS 37	Onerous Contract – Cost of Fulfilling a contract ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ⁴

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

² Effective for annual periods beginning on or after 1 June 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 2022

⁵ Effective for annual periods beginning on or after 1 January 2023

The Group anticipated that the application of all these new and amendments to HKFRSs had no 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\$74,993 million (2019: HK\$79,116 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 capitalization 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 or by selling it to another market participant that would use 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 at the end of the reporting period.

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 2020					
Turnover					
Leasing of investment properties	1,431	1,598	266	–	3,295
Provision of property management services	169	216	30	–	415
Segment revenue	1,600	1,814	296	–	3,710
Property expenses	(247)	(187)	(56)	–	(490)
Segment profit	1,353	1,627	240	–	3,220
Investment income					272
Other gains and losses					5
Administrative expenses					(268)
Finance costs					(546)
Change in fair value of investment properties					(4,903)
Share of results of associates					225
Loss before taxation					(1,995)
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 2020

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 2020					
Segment assets	31,727	34,602	8,731	1,278	76,338
Investments in and loans to associates					5,588
Other financial investments					789
Other assets					27,040
Consolidated assets					109,755
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

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 mainland China (the "PRC") and other major cities in Asia, with carrying amounts of HK\$6,374 million (2019: HK\$5,800 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 2020					
Additions to non-current assets	730	66	46	–	842

For the year ended 31 December 2019

Additions to non-current assets	808	43	40	–	891
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6. INVESTMENT INCOME

The following is an analysis of investment income:

	2020 HK\$ million	2019 HK\$ million
Interest income	242	121
Imputed interest income on interest-free loan to a joint venture	30	30
Reclassification of net gains from hedging reserve on financial instruments designated as cash flow hedges	–	3
	272	154

7. FINANCE COSTS

	2020 HK\$ million	2019 HK\$ million
Finance costs comprise:		
Interest on unsecured bank loans	41	43
Interest on unsecured fixed rate notes	463	254
Total interest expenses	504	297
Other finance costs	39	13
	543	310
Net exchange gains on borrowings	(28)	(46)
Reclassification of net losses from hedging reserve on financial instruments designated as cash flow hedges	28	46
Medium Term Note Programme expenses	3	3
	546	313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

8. TAXATION

	2020 HK\$ million	2019 HK\$ million
Current tax		
Hong Kong Profits Tax		
– current year	329	406
Deferred tax (note 28)	24	67
	353	473

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 (loss) profit before taxation per the consolidated statement of profit or loss as follows:

	2020 HK\$ million	2019 HK\$ million
(Loss) profit before taxation	(1,995)	5,559
Tax at Hong Kong Profits Tax rate of 16.5%	(329)	917
Tax effect of share of results of associates	(37)	(286)
Tax effect of expenses not deductible for tax purposes	836	122
Tax effect of income not taxable for tax purposes	(122)	(276)
Tax effect of estimated tax losses not recognized	7	2
Recognition of previously unrecognized tax losses	(2)	(6)
Taxation for the year	353	473

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. (LOSS) PROFIT FOR THE YEAR

	2020 HK\$ million	2019 HK\$ million
(Loss) profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	3	3
Depreciation of property, plant and equipment	24	22
Gross rental income from investment properties including rentals received with reference to turnover of tenants of HK\$51 million (2019: HK\$73 million)	(3,295)	(3,556)
Less:		
– Direct operating expenses arising from leasing of investment properties	166	214
	(3,129)	(3,342)
Staff costs (including directors' emoluments)	282	285
Share of income tax of associates (included in share of results of associates)	92	627

10. OTHER COMPREHENSIVE INCOME (EXPENSES)

	2020 HK\$ million	2019 HK\$ million
Other comprehensive income (expenses) comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of properties held for own use:		
(Loss) gain on revaluation of properties held for own use	(1)	25
Deferred taxation arising on revaluation	–	(4)
Change in fair value of equity instruments at fair value through other comprehensive income (“FVTOCI”)	5	–
	4	21
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net losses arising during the year	(150)	(14)
Reclassification of net losses to profit or loss	28	43
	(122)	29
Share of translation reserve of an associate	341	(84)
	219	(55)
Other comprehensive income (expenses) for the year (net of tax)	223	(34)

Tax effect relating to other comprehensive income (expenses):

	2020			2019		
	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	(1)	–	(1)	25	(4)	21
Change in fair value of equity instruments at FVTOCI	5	–	5	–	–	–
Net adjustments to hedging reserve	(122)	–	(122)	29	–	29
Share of translation reserve of an associate	341	–	341	(84)	–	(84)
	223	–	223	(30)	(4)	(34)

11. DIRECTORS' EMOLUMENTS

	2020 HK\$ million	2019 HK\$ million
Directors' fees	3	3
Other emoluments		
Basic salaries, housing and other allowances	8	8
Bonus (Notes d & f)	14	15
Share-based payments	2	2
	27	28

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2020

11. DIRECTORS' EMOLUMENTS *continued*

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2020 and 2019, 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 2020						
Executive Director (Note a)						
Lee Irene Yun-Lien	–	8,002	14,000	1,809	18	23,829
Non-Executive Directors (Note b)						
Jebsen Hans Michael (Note h)	330	–	–	–	–	330
Lee Anthony Hsien Pin	388	–	–	–	–	388
Lee Chien	310	–	–	–	–	310
Lee Tze Hau Michael	325	–	–	–	–	325
Independent Non-Executive Directors (Note c)						
Churchouse Frederick Peter (Note i)	407	–	–	–	–	407
Fan Yan Hok Philip (Note h)	523	–	–	–	–	523
Lau Lawrence Juen-Yee (Note j)	113	–	–	–	–	113
Poon Chung Yin Joseph	535	–	–	–	–	535
Wong Ching Ying Belinda (Note h)	310	–	–	–	–	310
	3,241	8,002	14,000	1,809	18	27,070
	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 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

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) The annual cash remuneration of Lee Irene Yun-Lien, Chairman, is comprised of (i) fixed base salary; and (ii) variable performance bonus which is determined by reference to the Company's performance as well as individual performance and contribution, to be measured against annual financial and operational targets.

For the year ended 31 December 2020, the base salary of HK\$8,000,000 and the performance bonus of HK\$14,000,000 were approved by the Remuneration Committee in January 2020 and January 2021 respectively.

- (e) Last revision of annual Directors' fees for serving on the Board (effective 1 June 2019) were approved by shareholders at the 2019 AGM. Fees of chairman and members of the Sustainability Committee (effective 1 January 2020) were approved by the Board in February 2020. Details are set out in Remuneration Committee Report.

Directors' fees are calculated on an 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 a pro rata basis.

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2020 is set out below:

	Board HK\$'000	Audit and Risk Management Committee HK\$'000	Remuneration Committee HK\$'000	Nomination Committee HK\$'000	Sustainability Committee HK\$'000	2020 Total HK\$'000	2019 Total HK\$'000
Executive Director							
Lee Irene Yun-Lien	-	-	-	-	-	-	-
Non-Executive Directors							
Jebsen Hans Michael	280	-	-	-	50	330	268
Lee Anthony Hsien Pin	280	108	-	-	-	388	360
Lee Chien	280	-	-	30	-	310	293
Lee Tze Hau Michael	280	-	45	-	-	325	311
Independent Non-Executive Directors							
Churchouse Frederick Peter	280	108	-	19	-	407	360
Fan Yan Hok Philip	280	108	75	30	30	523	455
Lau Lawrence Juen-Yee (Note j)	102	-	-	11	-	113	293
Poon Chung Yin Joseph	280	180	45	30	-	535	498
Wong Ching Ying Belinda	280	-	-	-	30	310	268
	2,342	504	165	120	110	3,241	3,106

- (f) The annual cash remuneration of Lee Irene Yun-Lien, Chairman, is comprised of (i) fixed base salary; and (ii) variable performance bonus which is determined by reference to the Company's performance as well as individual performance and contribution, to be measured against annual financial and operational targets.
- For the year ended 31 December 2019, the base salary of HK\$8,000,000 and the performance bonus of HK\$15,000,000 were approved by the Remuneration Committee in January 2019 and January 2020 respectively.
- (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) The Sustainability Committee has been established with effect from 1 January 2020. Jebsen Hans Michael was appointed as the Chairman of the Committee. Fan Yan Hok Philip and Wong Ching Ying Belinda were appointed as members of the Committee.
- (i) Churchouse Frederick Peter was appointed as a member of the Nomination Committee with effect from the conclusion of 2020 AGM.
- (j) Lau Lawrence Juen-Yee retired as an Independent Non-Executive Director and a member of the Nomination Committee with effect from the conclusion of 2020 AGM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

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 (2019: one) was a 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 2020 and 2019 were as follows:

	2020 HK\$ million	2019 HK\$ million
Basic salaries, housing and other allowances	22	21
Bonus	20	21
Share-based payments (Note)	3	4
	45	46

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	
	2020	2019
HK\$4,000,001 to HK\$4,500,000	2	1
HK\$4,500,001 to HK\$5,000,000	1	2
HK\$6,500,001 to HK\$7,000,000	1	–
HK\$7,000,001 to HK\$7,500,000	–	1
HK\$23,500,001 to HK\$24,000,000	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	
	2020	2019
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\$23,000,001 to HK\$24,000,000	1	–
HK\$24,000,001 to HK\$25,000,000	–	1
	6	6

13. DIVIDENDS

(a) Dividends recognized as distribution during the year:

	2020 HK\$ million	2019 HK\$ million
2020 first interim dividend paid – HK27 cents per share	281	–
2019 first interim dividend paid – HK27 cents per share	–	283
2019 second interim dividend paid – HK117 cents per share	1,221	–
2018 second interim dividend paid – HK117 cents per share	–	1,224
	1,502	1,507

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

	2020 HK\$ million	2019 HK\$ million
Second interim dividend (in lieu of a final dividend) – HK117 cents per share (2019: HK117 cents per share)	1,216	1,221

The second interim dividend is not recognized as a liability as at 31 December 2020 because it has been declared after the end of the reporting period. It will be payable in cash.

14. (LOSS) EARNINGS PER SHARE

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

	(Loss) earnings	
	2020 HK\$ million	2019 HK\$ million
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share:		
(Loss) profit for the year attributable to owners of the Company	(2,547)	4,845
	Number of shares	
	2020	2019
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	1,041,797,236	1,046,186,877
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	–	157,908
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	1,041,797,236	1,046,344,785

The computation of diluted (loss) earnings per share does not assume the exercise of all (2019: certain) of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares.

15. INVESTMENT PROPERTIES

	2020 HK\$ million	2019 HK\$ million
Fair Value		
At 1 January	79,116	77,442
Additions	842	891
Net transfer to property, plant and equipment	(62)	(9)
Change in fair value recognized in profit or loss – unrealized	(4,903)	792
As at 31 December	74,993	79,116

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 2020 and 2019 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 capitalization 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.

The change in fair value recognized in profit or loss during the year mainly reflects the expansion of capitalization rates taken into account of the increasing market risk on the negative retail sector, coupled with a weakened office sector considering the global economic uncertainties.

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 2019	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
Additions	730	66	46	842
Net transfer to property, plant and equipment	–	(62)	–	(62)
Change in fair value recognized in profit or loss – unrealized	(4,119)	(909)	125	(4,903)
As at 31 December 2020	31,670	34,593	8,730	74,993

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
	2020 HK\$ million	2019 HK\$ million			
Retail	31,670	35,059	Income capitalization approach	(i) Capitalization rate (ii) Prevailing market rent per month	5.25 % – 5.50 % (2019: 5.00 % – 5.25 %) HK\$125 per square foot (2019: HK\$132 per square foot)
Office	34,593	35,498	Income capitalization approach	(i) Capitalization rate (ii) Prevailing market rent per month	4.25 % – 5.00 % (2019: 4.25 % – 5.00 %) HK\$59 per square foot (2019: HK\$60 per square foot)
Residential	8,730	8,559	Income capitalization approach	(i) Capitalization rate (ii) Prevailing market rent per month	3.75 % (2019: 3.75 %) HK\$39 per square foot (2019: HK\$38 per square foot)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

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 2019	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
Additions	–	3	18	–	21
Net transfer from investment properties	62	–	–	–	62
Deficit on revaluation	(6)	–	–	–	(6)
As at 31 December 2020	781	126	114	2	1,023
Comprising:					
At cost	–	126	114	2	242
At valuation	781	–	–	–	781
	781	126	114	2	1,023
ACCUMULATED DEPRECIATION					
As at 1 January 2019	–	97	56	–	153
Provided for the year	5	7	10	–	22
Eliminated on revaluation	(5)	–	–	–	(5)
As at 31 December 2019	–	104	66	–	170
Provided for the year	5	7	12	–	24
Eliminated on revaluation	(5)	–	–	–	(5)
As at 31 December 2020	–	111	78	–	189
CARRYING AMOUNTS					
As at 31 December 2020	781	15	36	2	834
As at 31 December 2019	725	19	30	2	776

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 2020 and 2019 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 capitalization 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
	2020 HK\$ million	2019 HK\$ million			
Leasehold land and buildings in Hong Kong	781	725	Income capitalization approach	(i) Capitalization rate	4.25 % – 4.75 % (2019: 4.25 % – 4.75 %)
				(ii) Prevailing market rent per month	HK\$69 per square foot (2019: HK\$72 per square foot)

The higher the capitalization 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 loss of HK\$1 million (2019: gain of HK\$25 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\$275 million (2019: HK\$171 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$55 million (2019: HK\$53 million) and accumulated depreciation of HK\$42 million (2019: HK\$37 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 (2019: HK\$5 million). There has been no disposal during both years ended 31 December 2020 and 2019.

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17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the principal subsidiaries of the Company:

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
Elect Global Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100 %	–	Treasury operation
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.

The Group’s subsidiaries that have material non-controlling interests includes Barrowgate Limited and Elect Global Investments Limited (“Elect Global”). Elect Global’s issued ordinary shares are fully held by the Group. As disclosed in note 29 of the Notes to Consolidated Financial Statement section, Elect Global issued perpetual capital securities which are classified as equity to parties outside the Group. The amount of such non-controlling interests of Elect Global has been disclosed in consolidated statement of changes in equity as perpetual capital securities.

17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY continued

The summarized financial information in respect of Barrowgate Limited is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Barrowgate Limited

	2020 HK\$ million	2019 HK\$ million
Current assets	310	392
Non-current assets	9,688	10,232
Current liabilities	(811)	(834)
Non-current liabilities	(203)	(200)
Equity attributable to owners of the Company	5,872	6,268
Non-controlling interests	3,112	3,322
Turnover	552	575
(Loss) profit and total comprehensive (expense) income for the year	(256)	696
(Loss) profit and total comprehensive (expense) income attributable to owners of the Company	(167)	455
(Loss) profit and total comprehensive (expense) income attributable to the non-controlling interests	(89)	241
Dividends paid to non-controlling interests	121	125
Net cash inflows from operating activities	324	455
Net cash inflows (outflows) from investing activities	158	(161)
Cash outflows from financing activities	(360)	(370)
Net cash inflows (outflows)	122	(76)

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18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES

	2020 HK\$ million	2019 HK\$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	5,575	5,187
	5,577	5,189
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 summarizes details of the Group's material associate as at 31 December 2020 and 2019 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

	2020 HK\$ million	2019 HK\$ million
Current assets	2,111	1,795
Non-current assets	28,400	26,461
Current liabilities	(1,306)	(1,009)
Non-current liabilities	(6,620)	(6,211)
Turnover	1,525	1,399
Profit for the year	884	7,016
Other comprehensive income (expense) for the year	1,377	(339)
Total comprehensive income for the year	2,261	6,677
Group's share of results of the associate for the year	218	1,734
Group's share of other comprehensive income (expense) of the associate for the year	341	(84)
Dividends received from the associate during the year	177	166

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:

	2020 HK\$ million	2019 HK\$ million
Net assets of the associate	22,585	21,036
Non-controlling interests of the associate	(1,342)	(1,249)
Net assets of the associate after deducting non-controlling interests of the associate	21,243	19,787
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	5,587	5,204
Others	(2)	(5)
Carrying amount of the Group's interest in the associate	5,585	5,199

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:

	2020 HK\$ million	2019 HK\$ million
Investment in a joint venture		
Unlisted shares, at cost	–	–
Deemed capital contribution in a joint venture (Note a)	125	143
	125	143
Loans to a joint venture classified as:		
Non-current assets (Note b)	1,153	1,090

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 2020, except for the loans to a joint venture with aggregate carrying amounts of HK\$120 million (2019: HK\$120 million) which are carrying variable rates ranging from 2.11% to 4.71% (2019: 2.94% to 4.71%) 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 2020 and 2019 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

	2020 HK\$ million	2019 HK\$ million
Current assets	4,609	3,896
Current liabilities	(217)	(41)
Non-current liabilities	(4,392)	(3,855)

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:

	2020 HK\$ million	2019 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	125	143
Carrying amount of the Group's interest in the joint venture	125	143

20. OTHER FINANCIAL INVESTMENTS

	2020 HK\$ million	2019 HK\$ million
Investment designated as at FVTOCI		
– Investment in equity security listed overseas (Note a)	200	235
– Investment in unlisted equity security (Note b)	297	–
Investment at FVTPL		
– Unlisted investment in a fund investment (Note c)	292	366
	789	601

Notes:

- 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.
- The balance represents the Group's interest in equity security and 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.
- 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 FVTPL.

21. DEBT SECURITIES

	2020 HK\$ million	2019 HK\$ million
Debt securities, at amortized cost:		
– listed in Hong Kong	338	172
– listed overseas	116	–
Total	454	172
Analysed for reporting purposes as:		
Current assets	–	–
Non-current assets	454	172
	454	172

As at 31 December 2020, the effective yield of the debt securities ranged from 2.44% to 4.85% (2019: 3.35% to 4.85%) per annum, payable quarterly, semi-annually or annually, and the securities will mature from February 2022 to June 2025 (2019: from February 2022 to July 2022). 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	
	2020 HK\$ million	2019 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	1	8
Other financial liabilities		
Derivatives under hedge accounting:		
Cash flow hedges		
– Cross currency swaps	183	46
Total	183	46

(a) Cash flow hedges
Foreign currency risk

During the year, the Group used cross currency swaps to manage its foreign currency exposure. The principal terms of the 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 cross currency swaps at the end of the reporting period are as follows:

Hedging instruments

	2020					2019				
	Average exchange rate*	Foreign currency	Notional amount		Fair value	Average exchange rate*	Foreign currency	Notional amount		Fair value
			million	HK\$ million	HK\$ million			million	HK\$ million	HK\$ million
Cross currency swaps										
Hedging of USD fixed rate notes (Note)										
More than 1 year but not exceeding 5 years	7.7519	USD	300	2,326	(8)	7.7519	USD	300	2,326	7
More than 5 years	7.8477	USD	1,125	8,829	(175)	7.8449	USD	500	3,922	(46)
Total				11,155	(183)				6,248	(39)

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

Note:

The Group used HK\$11,155 million (2019: HK\$6,248 million) cross currency swaps to convert USD interest and principal of US\$1,425 million (2019: US\$800 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		2020 HK\$ million	2019 HK\$ million
	2020 HK\$ million	2019 HK\$ million	2020 HK\$ million	2019 HK\$ million		
USD fixed rate notes	–	–	10,974	6,203	(141)	(19)

The hedging ineffectiveness for the years ended 31 December 2020 and 2019 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
	2020 HK\$ million	2019 HK\$ million	2020 HK\$ million	2019 HK\$ million	
	Forward foreign exchange contracts	–	1	–	
Cross currency swaps	(150)	(15)	28	46	Finance costs

The fair values of 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

	2020 HK\$ million	2019 HK\$ million
Accounts receivable	67	24
Interest receivable	109	105
Prepayments in respect of investment properties	149	124
Other receivables and prepayments	503	352
Total	828	605
Analysed for reporting purposes as:		
Current assets	467	314
Non-current assets	361	291
	828	605

The following is an ageing analysis of accounts receivable (net of allowance for credit losses) at the end of the reporting period. Accounts receivable mainly includes rents from leasing of investment properties, which are normally received in advance.

	2020 HK\$ million	2019 HK\$ million
Less than 30 days	34	14
31-90 days	23	10
Over 90 days	10	–
	67	24

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24. TIME DEPOSITS/CASH AND CASH EQUIVALENTS

Time deposits, cash and bank balances include bank deposits carrying effective interest rates ranging from 0.08% to 2.73% (2019: 0.10% to 3.10%) per annum.

As at 31 December 2020 and 2019, 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

	2020 HK\$ million	2019 HK\$ million
Accounts payable	277	319
Interest payable	161	131
Other payables	493	484
	931	934

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$160 million (2019: HK\$220 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:

	2020 HK\$ million	2019 HK\$ million
Unsecured bank loans:		
Within 1 year	–	–
More than 1 year, but not exceeding 2 years	797	248
More than 2 years, but not exceeding 5 years	1,556	1,753
	2,353	2,001
Less: Amount due within 1 year included under current liabilities	–	–
	2,353	2,001
Unsecured fixed rate notes:		
Within 1 year	–	565
More than 1 year, but not exceeding 2 years	527	–
More than 2 years, but not exceeding 5 years	3,716	3,265
More than 5 years	12,374	6,698
	16,617	10,528
Less: Amount due within 1 year included under current liabilities	–	(565)
	16,617	9,963
Total current borrowings	–	565
Total non-current borrowings	18,970	11,964
Total borrowings	18,970	12,529

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 1.40% (2019: 2.70%) 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:

	2020		2019	
	HK\$ %	US\$ %	HK\$ %	US\$ %
Unsecured fixed rate notes	2.10 – 4.50	2.82 – 3.55	2.81 – 5.38	2.82 – 3.50

As detailed in note 22 of the Notes to the Consolidated Financial Statements section, during the years ended 31 December 2020 and 2019, cross currency swaps were used to hedge or manage the foreign exchange rate risks of the Group's USD fixed rate notes.

28. DEFERRED TAX ASSET/LIABILITIES

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 2019	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
Charge (credit) to profit or loss (note 8)	72	–	(48)	24
As at 31 December 2020	1,028	90	(169)	949

At the end of the reporting period, the Group has unused estimated tax losses of HK\$1,730 million (2019: HK\$1,361 million) available for offset against future profits. A deferred tax asset has been recognized in respect of HK\$1,025 million (2019: HK\$735 million) of such losses. No deferred tax asset has been recognized in respect of the remaining HK\$705 million (2019: HK\$626 million) due to the unpredictability of future profit streams and the tax losses may be carried forward indefinitely.

29. PERPETUAL CAPITAL SECURITIES

During the year, the Group through a wholly owned subsidiary of the Company (the "Issuer") issued US\$850 million (equivalent to approximately HK\$6,604 million) 4.10% subordinated perpetual capital securities (the "Subordinated Securities"), which are unconditionally and irrevocably guaranteed by the Company. Further, the Issuer issued US\$500 million (equivalent to approximately HK\$3,875 million) 4.85% senior perpetual capital securities (the "Senior Securities"), which are unconditionally and irrevocably guaranteed by the Company. The proceeds of the capital securities are for general corporate purpose and the capital securities are listed on Hong Kong Stock Exchange.

Distribution on the Subordinated Securities and Senior Securities (collectively the "Securities") are payable semi-annually in-arrear each year and can be deferred at the sole discretion of the Issuer, if the Issuer and the Company do not declare or pay dividends or repurchase, redeem, cancel, reduce or otherwise acquire any securities of lower or equal rank. The Securities have no fixed maturity and are redeemable at the Issuer's option on or after 3 June 2025 and 25 August 2023 respectively, at their principal amounts together with any distribution accrued to such date.

The Securities are classified as equity and initially recognized at the amount of proceeds received in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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30. SHARE CAPITAL

	Number of shares	Share capital HK\$ million
Ordinary shares, issued and fully paid:		
As at 1 January 2019	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
Issue of shares under share option schemes	50,000	2
Cancellation upon repurchase of own shares (Note)	(4,170,000)	–
As at 31 December 2020	1,039,700,891	7,722

During the year of 2020, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2020	Number of ordinary shares repurchased (Note)	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
March	1,700,000	25.40	21.65	41
October	2,200,000	25.30	23.95	55
	3,900,000			96

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 2020 and 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 3,900,000 and 3,000,000 ordinary shares repurchased in 2020 and 2019, 3,900,000 and 2,730,000 ordinary shares were cancelled during the year ended 31 December 2020 and 2019 respectively. The remaining 270,000 ordinary shares repurchased in 2019 were cancelled in February 2020.

31. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020 HK\$ million	2019 HK\$ million
Non-current assets		
Property, plant and equipment	–	–
Investments in subsidiaries	1,845	1,634
Other financial assets	1	1
Amounts due from subsidiaries	3,692	2,869
	5,538	4,504
Current assets		
Other receivables	17	8
Amounts due from subsidiaries	10,463	10,747
Cash and cash equivalents	1	22
	10,481	10,777
Current liabilities		
Other payables and accruals	72	79
Amounts due to subsidiaries	2,564	1,949
	2,636	2,028
Net current assets	7,845	8,749
Net assets	13,383	13,253
Capital and reserves		
Share capital (note 30)	7,722	7,720
Reserves	5,661	5,533
Total equity	13,383	13,253

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on 25 February 2021 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lee T.H. Michael
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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31. 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)	Retained profits HK\$ million	Total HK\$ million
As at 1 January 2019	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
Recognition of equity-settled share-based payments	4	–	–	4
Repurchase of own shares	–	–	(96)	(96)
Profit and total comprehensive income for the year	–	–	1,721	1,721
Forfeiture of unclaimed dividends	–	–	1	1
Dividends paid during the year (note 13)	–	–	(1,502)	(1,502)
As at 31 December 2020	27	100	5,534	5,661

Note: General reserve was set up from the transfer of retained profits.

The Company's reserves available for distribution to its owners as at 31 December 2020 amounted to HK\$5,634 million (2019: HK\$5,510 million), being its general reserve and retained profits at that date.

32. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES

	2020 HK\$ million	2019 HK\$ million
Net debt (Note a)	5,965	(3,197)
Other financial liabilities (Note b)	(183)	(46)
Interest payable	(161)	(131)
Amounts due to non-controlling interests	(217)	(220)
	5,404	(3,594)

32. 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 2019	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)
Cash flows, net	10,792	4,811	–	(350)	(6,100)	493	3	9,649
Other non-cash changes:								
Foreign exchange adjustments	–	–	(26)	2	24	–	–	–
Fair value adjustments	–	–	(105)	–	–	–	–	(105)
Interest expenses	–	–	(6)	(4)	(13)	(523)	–	(546)
As at 31 December 2020	14,389	10,546	(183)	(2,353)	(16,617)	(161)	(217)	5,404

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.

33. 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 (2019: HK\$10 million).

34. 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:

	2020 HK\$ million	2019 HK\$ million
(a) Capital commitment:		
Contracted but not provided for investment properties and property, plant and equipment	157	207
(b) Other commitment:		
Subscription to a fund investment as limited partner	85	14

35. 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:

	2020 HK\$ million	2019 HK\$ million
Within one year	2,867	3,315
In the second year	1,874	2,390
In the third year	1,026	1,459
In the fourth year	610	799
In the fifth year	427	586
Over five years	1,019	1,517
	7,823	10,066

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.

36. 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 1(b) of the Financial risk management objectives and policies 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	
	2020 HK\$ million	2019 HK\$ million	2020 HK\$ million	2019 HK\$ million
Related companies controlled by the Directors of the Company (Note a (i) & (ii))	42	42	62	63
Non-controlling shareholder of a subsidiary (Note b (i) & (ii))	5	14	154	157

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 Limited, of which Jebsen Hans Michael is a director and a controlling shareholder, as a shareholder 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 sum of transactions represents the aggregate 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 a shareholder 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:

	2020 HK\$ million	2019 HK\$ million
Directors' fees, salaries and other short-term employee benefits	48	48
Share-based payments	3	4
Retirement benefits scheme contributions	1	1
	52	53

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

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 1,602,000 (2019: 1,286,200) share options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

(b) Grant and vesting structures

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2020

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 1.1.2020	Changes during the year			Balance as at 31.12.2020
					Granted	Exercised	Cancelled/ lapsed (Note b)	
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Eligible employees								
(Note c)	31.3.2010	22.45	31.3.2011 – 30.3.2020	50,000	–	(50,000) (Note d)	–	–
	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	–	(50,000)	–	1,272,667

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 1.1.2020	Changes during the year			Balance as at 31.12.2020
					Granted	Exercised	Cancelled/ lapsed (Note b)	
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	-	-	-	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	-	-	-	300,000
	1.3.2018	44.60	1.3.2019 – 29.2.2028	373,200	-	-	-	373,200
	22.2.2019	42.40	22.2.2020 – 21.2.2029	494,200	-	-	-	494,200
	21.2.2020	29.73 (Note e)	21.2.2021 – 20.2.2030	-	650,000	-	-	650,000
Eligible employees (Note c)								
	31.3.2016	33.05	31.3.2017 – 30.3.2026	125,000	-	-	-	125,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	244,667	-	-	-	244,667
	29.3.2018	41.50	29.3.2019 – 28.3.2028	496,000	-	-	(2,000)	494,000
	29.3.2019	42.05	29.3.2020 – 28.3.2029	762,000	-	-	(4,000)	758,000
	31.3.2020	25.20 (Note f)	31.3.2021 – 30.3.2030	-	952,000	-	-	952,000
Exercisable at the end of the year				3,170,067	1,602,000	-	(6,000)	4,766,067
								3,312,853

Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon resignations of certain eligible employees.
- Eligible employees are those working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$28.40.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 20 February 2020) was HK\$29.55.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2020) was HK\$23.85.

In respect of the share options exercised during the year ended 31 December 2020, the weighted average share price at the date of exercise was HK\$28.35.

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 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2020

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 1.1.2019	Changes during the year			Balance as at 31.12.2019
					Granted	Exercised	Cancelled/ lapsed (Note b)	
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Eligible employees (Note c)								
	31.3.2010	22.45	31.3.2011 – 30.3.2020	50,000	–	–	–	50,000
	31.3.2011	32.00	31.3.2012 – 30.3.2021	32,000	–	–	–	32,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	70,000	–	–	–	70,000
	28.3.2013	39.20	28.3.2014 – 27.3.2023	85,000	–	–	–	85,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	46,000	–	–	–	46,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	62,667	–	–	–	62,667
				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			Balance as at 31.12.2019
					Granted	Exercised	Cancelled/ lapsed (Note b)	
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	–	–	–	300,000
	1.3.2018	44.60	1.3.2019 – 29.2.2028	373,200	–	–	–	373,200
	22.2.2019	42.40 (Note d)	22.2.2020 – 21.2.2029	–	494,200	–	–	494,200
Eligible employees (Note c)								
	31.3.2016	33.05	31.3.2017 – 30.3.2026	174,000	–	(49,000) (Note e)	–	125,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	248,667	–	–	(4,000)	244,667
	29.3.2018	41.50	29.3.2019 – 28.3.2028	513,000	–	–	(17,000)	496,000
	29.3.2019	42.05 (Note f)	29.3.2020 – 28.3.2029	–	792,000	–	(30,000)	762,000
				1,983,867	1,286,200	(49,000)	(51,000)	3,170,067
Exercisable at the end of the year								2,457,059

Notes:

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

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

(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 (2019: HK\$4 million) in relation to share options granted by the Company, of which HK\$2 million (2019: HK\$2 million) related to the Director (see note 11 of the Notes to Consolidated Financial Statements section), 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	31.3.2020	21.2.2020	29.3.2019	22.2.2019
Closing share price at the date of grant	HK\$25.200	HK\$29.250	HK\$42.050	HK\$42.400
Exercise price	HK\$25.200	HK\$29.730	HK\$42.050	HK\$42.400
Risk free rate (Note a)	0.528%	1.172%	1.406 %	1.552 %
Expected life of option (Note b)	5 years	5 years	5 years	5 years
Expected volatility (Note c)	18.518%	18.013%	17.689 %	17.710 %
Expected dividend per annum (Note d)	HK\$1.384	HK\$1.384	HK\$1.342	HK\$1.342
Estimated fair values per share option	HK\$2.060	HK\$2.520	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 five 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 five years immediately before the date of grant.
- (d) Expected dividend per annum: being the approximate average annual cash dividend over the past five financial years.

Financial Risk Management

For the year ended 31 December 2020

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 or 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 2020, these loans with gross carrying amount of HK\$1,170 million (2019: HK\$1,107 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 2020, accounts and other receivables with gross carrying amount of HK\$828 million (2019: HK\$605 million) are considered to be performing and were assessed individually based on the respective lifetime ECL and 12-month ECL.

FINANCIAL RISK MANAGEMENT continued

For the year ended 31 December 2020

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(a) Credit risk and impairment assessment continued

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 2020, debt securities, time deposits and bank balances with gross carrying amount of HK\$25,389 million (2019: HK\$9,504 million) were assessed individually based on 12-month ECL and considered to be performing as all financial institutions that the Group dealt with. Time deposits, bank balances 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 2019	4	1
Net impairment loss under ECL model	2	3
As at 31 December 2019	6	4
Net impairment loss under ECL model	–	7
As at 31 December 2020	6	11

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 1(b) of the Financial risk management objectives and policies 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 2020						
Non-derivative financial liabilities						
Accounts payable and accruals	(931)	(931)	(931)	–	–	–
Deposits from tenants	(974)	(974)	(377)	(290)	(260)	(47)
Amounts due to non-controlling interests	(217)	(217)	(217)	–	–	–
Unsecured bank loans	(2,353)	(2,428)	(22)	(817)	(1,589)	–
Unsecured fixed rate notes	(16,617)	(20,673)	(521)	(1,042)	(5,478)	(13,632)
	(21,092)	(25,223)	(2,068)	(2,149)	(7,327)	(13,679)
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)

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 2020 and 2019, 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 2020						
Derivative settled gross						
Cross currency swaps	(183)					
Outflow		(13,848)	(351)	(351)	(3,147)	(9,999)
Inflow		13,712	342	342	3,147	9,881
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

(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 2020, about 12.0% (2019: 16.0%) 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") (2019: +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 2020	(16)	4	18	(3)
As at 31 December 2019	(17)	4	4	(1)

(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.

	2020		2019	
	US\$ million	Total equivalent to HK\$ million	US\$ million	Total equivalent to HK\$ million
Assets				
Cash	12	96	2	15
Time deposits	30	230	35	274
Debt securities	59	454	22	172
Other financial investments	102	789	77	601
	203	1,569	136	1,062
Liabilities				
Bank loan	60	463	60	464
Unsecured fixed rate notes	1,425	10,971	800	6,198
	1,485	11,434	860	6,662

Other than concentration of currency risk of the above items denominated in USD (2019: 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”) (2019: 500 pips) was applied to the HKD: USD (2019: 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 2020				
USD	7	(7)	83	(83)
As at 31 December 2019				
USD	4	(4)	4	(4)

(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

	2020 HK\$ million	2019 HK\$ million
Financial assets		
FVTPL	293	367
FVTOCI	497	235
Derivative instrument under hedge accounting	–	7
Amortized cost (including cash and cash equivalents)	26,731	10,757
	27,521	11,366
Financial liabilities		
Derivative instruments under hedge accounting	183	46
Amortized cost	21,092	14,684
	21,275	14,730

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 2020			
Derivatives under hedge accounting	–	–	–
As at 31 December 2019			
Derivatives under hedge accounting	7	–	7

(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 2020			
Counterparty A	–	–	–
As at 31 December 2019			
Counterparty A	7	(7)	–

(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 2020			
Derivatives under hedge accounting	(183)	–	(183)
As at 31 December 2019			
Derivatives under hedge accounting	(46)	–	(46)

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 2020			
Counterparty A	(32)	–	(32)
Counterparty B	(36)	–	(36)
Counterparty C	(36)	–	(36)
Counterparty D	(66)	–	(66)
Counterparty E	(13)	–	(13)
	(183)	–	(183)
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)

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\$16,617 million (2019: HK\$10,528 million) unsecured fixed rate notes as stated in note 27 of the Notes to the Consolidated Financial Statements section with fair value of HK\$17,432 million (2019: HK\$9,096 million).

The fair value of HK\$11,476 million (2019: HK\$4,649 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\$5,956 million (2019: HK\$4,447 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.

	2020			
	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	–	–	292	292
Financial asset at FVTOCI				
Listed investment in equity security	200	–	–	200
Unlisted investment in equity security	–	–	297	297
Total	200	1	589	790
Financial liabilities				
Derivatives under hedge accounting				
Cross currency swaps	–	183	–	183
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
Financial liability				
Derivative under hedge accounting				
Cross currency swap	–	46	–	46

4. FAIR VALUE MEASUREMENT continued**(c) Reconciliation of Level 3 fair value measurement of financial asset**

	Fund investment HK\$ million	Unlisted investment in equity security HK\$ million
As at 1 January 2019	294	–
Addition	60	–
Loss recognized in profit or loss	12	–
As at 31 December 2019	366	–
Addition	10	257
Return of capital	(81)	–
Loss recognized in profit or loss	(3)	–
Profit recognized in other comprehensive income	–	40
As at 31 December 2020	292	297

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

The unrealized fair value loss of HK\$3 million (2019: unrealized fair value gain of HK\$12 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.

Financial assets grouped in Level 3 are measured with reference to underlying assets and liabilities as at the end of the reporting period and other valuation techniques including discounted cash flows or market approach, taking into account different multiples such as price per earnings multiples of comparable listed companies, where relevant. If there is lack of marketability, a discount is applied in determining the fair value.

(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 the valuation techniques and inputs for Level 3 fair value measurements in relation to the fund investment and its underlying assets and liabilities. The Group engages independent qualified professional valuer to perform the valuation for investment in equity security. Where there is a material change in the fair value of the financial assets grouped in Level 3, analysis will be performed and 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 maximizing 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, perpetual capital securities or debt, the repurchase of shares and the redemption of existing perpetual capital securities or debt.

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

	2020 HK\$ million	2019 HK\$ million
Unsecured bank loans	2,353	2,001
Unsecured fixed rate notes	16,617	10,528
Borrowings	18,970	12,529
Less: Time deposits	(10,546)	(5,735)
Cash and cash equivalents	(14,389)	(3,597)
Net (cash) debt	(5,965)	3,197
Total equity	87,449	80,972
Net debt to equity	N/A	3.9%

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

	2020 HK\$ million	2019 HK\$ million (Note a)	2018 HK\$ million (Note b)	2017 HK\$ million	2016 HK\$ million
Results					
Turnover	3,710	3,988	3,890	3,548	3,535
Property expenses	(490)	(536)	(523)	(449)	(428)
Gross profit	3,220	3,452	3,367	3,099	3,107
Other income	–	–	–	261	–
Investment income	272	154	78	69	50
Other gains and losses	5	10	(16)	–	–
Administrative expenses	(268)	(269)	(227)	(247)	(219)
Finance costs	(546)	(313)	(222)	(158)	(178)
Change in fair value of investment properties	(4,903)	792	3,532	853	(1,187)
Share of results of associates	225	1,733	288	220	237
(Loss) profit before taxation	(1,995)	5,559	6,800	4,097	1,810
Taxation	(353)	(473)	(481)	(484)	(463)
(Loss) profit for the year	(2,348)	5,086	6,319	3,613	1,347
Perpetual capital securities holders	(288)	–	–	–	–
Other non-controlling interests	89	(241)	(286)	23	(129)
(Loss) profit attributable to owners of the Company	(2,547)	4,845	6,033	3,636	1,218
Underlying profit for the year	2,398	2,587	2,536	2,491	2,369
Recurring underlying profit for the year	2,398	2,587	2,536	2,349	2,369
Dividends					
Dividends paid	1,502	1,507	1,444	1,411	1,394
Dividends declared	1,216	1,221	1,224	1,161	1,139
Dividends per share (HK cents)	144	144	144	137	135
(Loss) earnings per share (HK\$), based on:					
(Loss) profit for the year					
– basic	(2.44)	4.63	5.77	3.48	1.16
– diluted	(2.44)	4.63	5.76	3.48	1.16
Performance indicators					
Net debt to equity	N/A	3.9%	4.5%	4.8%	5.2%
Net interest coverage (times)	9.8x	17.0x	18.1x	17.1x	20.5x
Net asset value per share (HK\$)	70.87	74.39	71.12	66.89	64.56
Net (cash) debt per share (HK\$)	(5.74)	3.06	3.35	3.37	3.50
Year-end share price (HK\$)	28.40	30.55	37.25	41.45	32.05

As at 31 December

	2020 HK\$ million	2019 HK\$ million (Note a)	2018 HK\$ million (Note b)	2017 HK\$ million	2016 HK\$ million
Assets and liabilities					
Investment properties	74,993	79,116	77,442	72,470	69,633
Investments in associates	5,577	5,189	3,708	3,779	3,497
Loans to associates	11	11	11	10	–
Investment in a joint venture	125	143	145	147	145
Loans to a joint venture	1,153	1,090	1,062	982	1,891
Other financial investments	789	601	294	21	–
Time deposits, cash and cash equivalents	24,935	9,332	2,817	2,662	2,630
Other assets	2,172	1,561	1,564	2,049	2,225
Total assets	109,755	97,043	87,043	82,120	80,021
Borrowings	(18,970)	(12,529)	(6,322)	(6,185)	(6,293)
Taxation	(1,031)	(1,341)	(962)	(945)	(863)
Other liabilities	(2,305)	(2,201)	(2,122)	(1,989)	(2,180)
Total liabilities	(22,306)	(16,071)	(9,406)	(9,119)	(9,336)
Net assets	87,449	80,972	77,637	73,001	70,685
Perpetual capital securities	(10,657)	–	–	–	–
Other non-controlling interests	(3,112)	(3,322)	(3,206)	(3,048)	(3,195)
Shareholders' funds	73,680	77,650	74,431	69,953	67,490

Definitions:

- (1) Underlying profit for the year:
a non-HKFRS measure, is arrived at by adding (i) Reported (Loss) Profit excluding unrealized fair value change of investment properties and items not generated from the Group's core property investment business; and (ii) Profit attributable to holders of perpetual capital securities.
- (2) Recurring underlying profit for the year:
a non-HKFRS measure, is a performance indicator of the Group's core property investment business and is arrived at by excluding from Underlying Profit items that are non-recurring in nature
- (3) Net debt to equity:
borrowings less time deposits, cash and cash equivalents divided by total equity
- (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:

- a. In 2019, the Group has applied HKFRS 16. Accordingly, certain comparative information for the years ended 31 December 2016, 2017 and 2018 may not be comparable to the year ended 31 December 2019 as such comparative information was prepared under HKAS 17. Accounting policies resulting from application of HKFRS 16 are disclosed in the "Significant Accounting Policies" Section.
- b. In 2018, the Group has applied the remaining sections of HKFRS 9. Accordingly, certain comparative information for the years ended 31 December 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. Accounting policies resulting from application of HKFRS 9 are disclosed in the "Significant Accounting Policies" Section.

Report of the Valuer

To the Board of Directors
Hysan Development Company Limited

Dear Sirs,

Annual Revaluation of Investment Properties as at 31 December 2020

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 2020 was in the approximate sum of Hong Kong Dollars Seventy-Four Billion Nine Hundred and Ninety Three Million (Hong Kong Dollars 74,993 million).

The completed investment properties have been valued individually on market value basis and have been assessed on the basis of capitalization of the net and potential income. We have also cross-checked the values by market comparables.

Yours faithfully
Knight Frank Petty Limited

Hong Kong, 17 February 2021

Schedule of Principal Properties

As at 31 December 2020

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 %

Overview

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SCHEDULE OF PRINCIPAL PROPERTIES *continued*

As at 31 December 2020

INVESTMENT PROPERTIES *continued*

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
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 2020

	HK\$	Number of Ordinary Shares
Issued and fully paid-up capital	7,721,662,909	1,039,700,891

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

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2020, 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	2,214	72.42	3,476,125	0.33
5,001 – 50,000	731	23.91	11,332,263	1.09
50,001 – 100,000	63	2.06	4,640,443	0.45
100,001 – 500,000	41	1.34	8,425,487	0.81
500,001 – 1,000,000	2	0.07	1,131,041	0.11
Above 1,000,000	6	0.20	1,010,695,532	97.21
Total	3,057	100	1,039,700,891	100

TYPES OF SHAREHOLDERS

(At 31 December 2020, 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	41.66
Other corporate shareholders	579,179,454	55.71
Individual shareholders	27,390,702	2.63
Total	1,039,700,891	100

LOCATION OF SHAREHOLDERS

(At 31 December 2020, 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	1,037,569,353	99.795
United States and Canada	1,898,751	0.183
United Kingdom	17,085	0.002
Others	215,702	0.020
Total	1,039,700,891	100

Note:

The percentages were compiled based on the total number of issued shares of the Company as at 31 December 2020 (i.e. 1,039,700,891 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	25 February 2021
Ex-dividend date for second interim dividend	10 March 2021
Closure of register of members and record date for second interim dividend	12 March 2021
Dispatch of second interim dividend warrants	(on or about) 26 March 2021
Closure of register of members for Annual General Meeting	17 to 21 May 2021
Annual General Meeting	21 May 2021
2021 interim results to be announced	11 August 2021*

* 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, 12 March 2021.

The register of members will be closed on Friday, 12 March 2021, 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, 11 March 2021.

Dividend warrants will be dispatched to shareholders on or about Friday, 26 March 2021.

The register of members will also be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on Friday, 21 May 2021, 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 Friday, 14 May 2021.

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 or the Company's Registrar, or by email to hysan14-ecom@hk.tricorglobal.com or cosec@hysan.com.hk. 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
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**
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*)
Churchouse Frederick Peter**
Fan Yan Hok Philip**
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

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

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