

Financial Statements, Valuation and Other Information

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Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED

希慎興業有限公司

(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 127 to 195, which comprise the consolidated statement of financial position as at 31 December 2022, 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 a summary of 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 2022, 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.

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Key Audit Matters continued

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, and is stated at fair value of HK\$96,787 million in aggregate, accounting for approximately 81 % of the Group's total assets as at 31 December 2022 with a fair value loss of HK\$3,213 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, reversionary income potential and redevelopment potential of the investment properties in determining the fair values. As further disclosed in note 14 of the Notes to the Consolidated Financial Statements section of the consolidated financial statements, the valuation of investment properties under development of HK\$19,640 million as at 31 December 2022 is based on the development potential of the properties as if they were completed and are also dependent upon the estimated costs of development and allowance of profit required for the development.

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.

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 local property markets;
- 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; and
- Assessing the appropriateness of assumption made and key inputs including capitalization rate and prevailing market rent on the valuation of investment properties under development and the estimated costs to complete the development of the sites by comparing to market data and evaluating whether the allowance of profit required for the development is comparable to the market.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Independent Auditor's Report continued

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

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

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

17 February 2023

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

	Notes	2022 HK\$ million	2021 HK\$ million
Turnover	4	3,460	3,608
Property expenses		(567)	(499)
Gross profit		2,893	3,109
Investment income		248	92
Other gains and losses		(2)	(8)
Administrative expenses		(332)	(274)
Finance costs	6	(423)	(393)
Change in fair value of investment properties		(3,213)	(720)
Share of results of:			
associates		274	458
joint ventures		(52)	(3)
(Loss) profit before taxation		(607)	2,261
Taxation	7	(342)	(358)
(Loss) profit for the year	8	(949)	1,903
(Loss) profit for the year attributable to:			
Owners of the Company		(1,157)	1,383
Perpetual capital securities holders		450	459
Other non-controlling interests		(242)	61
		(949)	1,903
(Loss) earnings per share (expressed in HK cents)	13		
Basic		(112)	133
Diluted		(112)	133

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022 HK\$ million	2021 HK\$ million
(Loss) profit for the year		(949)	1,903
Other comprehensive (expenses) income	9		
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Loss on revaluation of properties held for own use (net of tax)		(6)	(18)
Change in fair value of equity instruments at fair value through other comprehensive income ("FVTOCI")		(42)	314
		(48)	296
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of subsidiaries		(311)	–
Net adjustments to hedging reserve		17	(20)
Share of translation reserve of an associate		(557)	167
		(851)	147
Other comprehensive (expenses) income for the year (net of tax)		(899)	443
Total comprehensive (expenses) income for the year		(1,848)	2,346
Total comprehensive (expenses) income attributable to:			
Owners of the Company		(2,056)	1,826
Perpetual capital securities holders		450	459
Other non-controlling interests		(242)	61
		(1,848)	2,346

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK\$ million	2021 HK\$ million
Non-current assets			
Investment properties	14	96,787	95,107
Property, plant and equipment	15	623	472
Investments in associates	17	5,491	5,995
Loans to associates	17	10	10
Investments in joint ventures	18	473	475
Loans to joint ventures	18	3,485	1,256
Other financial investments	19	2,035	1,780
Debt securities	20	992	843
Deferred tax assets	27	96	90
Other financial assets	21	383	9
Other receivables	22	442	1,835
		110,817	107,872
Current assets			
Accounts and other receivables	22	562	887
Debt securities	20	–	171
Other financial assets	21	15	–
Tax recoverable		–	39
Time deposits	23	5,211	1,866
Cash and cash equivalents	23	2,560	6,538
		8,348	9,501
Current liabilities			
Accounts payable and accruals	24	1,026	820
Deposits from tenants		387	372
Amounts due to non-controlling interests	25	214	214
Borrowings	26	3,244	531
Taxation payable		32	–
		4,903	1,937
Net current assets		3,445	7,564
Total assets less current liabilities		114,262	115,436
Non-current liabilities			
Amounts due to non-controlling interests	25	4,635	7,639
Borrowings	26	24,033	18,126
Other financial liabilities	21	514	149
Deposits from tenants		498	546
Deferred tax liabilities	27	1,171	1,091
		30,851	27,551
Net assets		83,411	87,885
Capital and reserves			
Share capital	29	7,723	7,723
Reserves		62,477	66,147
Equity attributable to owners of the Company		70,200	73,870
Perpetual capital securities	28	10,224	10,657
Other non-controlling interests		2,987	3,358
Total equity		83,411	87,885

Financial Statements,
Valuation and Other Information

The consolidated financial statements on pages 127 to 195 were approved and authorized for issue by the Board of Directors on 17 February 2023 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lui Kon Wai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	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 2022	7,723	31	96	320
(Loss) profit for the year	-	-	-	-
Exchange difference on translation of subsidiaries	-	-	-	-
Net gains 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 investments at FVTOCI	-	-	-	(42)
Share of translation reserve of an associate	-	-	-	-
Total comprehensive (expenses) income for the year	-	-	-	(42)
Recognition of equity-settled share-based payments	-	7	-	-
Forfeiture of share options	-	(2)	-	-
Repurchase of own shares	-	-	-	-
Forfeiture of unclaimed dividend	-	-	-	-
Dividends paid during the year (note 12)	-	-	-	-
Distribution to perpetual capital securities holders	-	-	-	-
Deemed contribution to a non-controlling shareholder	-	-	-	-
Repurchase of perpetual capital securities	-	-	-	-
As at 31 December 2022	7,723	36	96	278
As at 1 January 2021	7,722	27	96	6
Profit for the year	-	-	-	-
Net gains 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 investments at FVTOCI	-	-	-	314
Share of translation reserve of an associate	-	-	-	-
Total comprehensive income (expense) for the year	-	-	-	314
Issue of shares under share option schemes	1	-	-	-
Recognition of equity-settled share-based payments	-	5	-	-
Forfeiture of share options	-	(1)	-	-
Repurchase of own shares	-	-	-	-
Forfeiture of unclaimed dividend	-	-	-	-
Dividends paid during the year (note 12)	-	-	-	-
Distribution to perpetual capital securities holders	-	-	-	-
Deemed contribution from a non-controlling shareholder	-	-	-	-
As at 31 December 2021	7,723	31	96	320

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
(161)	458	530	64,873	73,870	10,657	3,358	87,885
-	-	-	(1,157)	(1,157)	450	(242)	(949)
-	-	(311)	-	(311)	-	-	(311)
51	-	-	-	51	-	-	51
(34)	-	-	-	(34)	-	-	(34)
-	(6)	-	-	(6)	-	-	(6)
-	-	-	-	(42)	-	-	(42)
-	-	(557)	-	(557)	-	-	(557)
17	(6)	(868)	(1,157)	(2,056)	450	(242)	(1,848)
-	-	-	-	7	-	-	7
-	-	-	2	-	-	-	-
-	-	-	(162)	(162)	-	-	(162)
-	-	-	1	1	-	-	1
-	-	-	(1,486)	(1,486)	-	(107)	(1,593)
-	-	-	-	-	(458)	-	(458)
-	-	-	-	-	-	(22)	(22)
-	-	-	26	26	(425)	-	(399)
(144)	452	(338)	62,097	70,200	10,224	2,987	83,411
(141)	476	363	65,131	73,680	10,657	3,112	87,449
-	-	-	1,383	1,383	459	61	1,903
42	-	-	-	42	-	-	42
(62)	-	-	-	(62)	-	-	(62)
-	(18)	-	-	(18)	-	-	(18)
-	-	-	-	314	-	-	314
-	-	167	-	167	-	-	167
(20)	(18)	167	1,383	1,826	459	61	2,346
-	-	-	-	1	-	-	1
-	-	-	-	5	-	-	5
-	-	-	1	-	-	-	-
-	-	-	(146)	(146)	-	-	(146)
-	-	-	1	1	-	-	1
-	-	-	(1,497)	(1,497)	-	(121)	(1,618)
-	-	-	-	-	(459)	-	(459)
-	-	-	-	-	-	306	306
(161)	458	530	64,873	73,870	10,657	3,358	87,885

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 HK\$ million	2021 HK\$ million
Operating activities			
(Loss) profit before taxation		(607)	2,261
Adjustments for:			
Net interest income		(248)	(92)
Other gains and losses		2	11
Depreciation of property, plant and equipment		32	29
Share-based payment expenses		7	5
Finance costs		423	393
Change in fair value of investment properties		3,213	720
Share of results of associates		(274)	(458)
Share of results of joint ventures		52	3
Operating cash flows before movements in working capital		2,600	2,872
(Increase) decrease in accounts and other receivables		(91)	126
Increase (decrease) in accounts payable and accruals		115	(97)
Decrease in deposits from tenants		(33)	(56)
Cash generated from operations		2,591	2,845
Hong Kong Profits Tax paid		(196)	(369)
Net cash from operating activities		2,395	2,476
Investing activities			
Payments in respect of investment properties		(3,062)	(22,262)
Purchases of property, plant and equipment		(19)	(72)
Dividends received from an associate		221	207
Repayment from an associate		–	1
Repayment from joint ventures		819	–
Investment in joint ventures		(2)	(355)
Advance to joint ventures		(3,055)	(90)
Payment in respect of other financial investments		(292)	(682)
Purchases of debt securities		(147)	(554)
Interest received		95	73
Additions to time deposits with original maturity over three months		(10,272)	(14,302)
Proceeds upon maturity of debt securities		171	–
Proceeds upon maturity of time deposits with original maturity over three months		6,927	22,989
Net cash used in investing activities		(8,616)	(15,047)
Financing activities			
Payment of finance costs		(732)	(565)
Advance from non-controlling interest	31	–	7,911
New bank loans	31	9,142	–
Repayment of bank loans	31	(80)	(800)
Issuance of fixed rate notes	31	149	399
Repurchase of perpetual capital securities		(399)	–
Repayment of fixed rate note	31	(531)	–
Repayment to non-controlling interests of a subsidiary	31	(3,164)	(3)
Proceeds on exercise of share options		–	1
Payment on repurchase of own shares		(162)	(146)
Dividends paid		(1,486)	(1,497)
Distribution paid to perpetual capital securities holders		(458)	(459)
Dividends paid to other non-controlling interests		(107)	(121)
Net cash from financing activities		2,172	4,720
Net decrease in cash and cash equivalents		(4,049)	(7,851)
Effect of foreign exchange rate changes		71	–
Cash and cash equivalents as at 1 January		6,538	14,389
Cash and cash equivalents as at 31 December	23	2,560	6,538

Significant Accounting Policies

For the year ended 31 December 2022

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.

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 subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests (including perpetual capital securities holders and non-controlling interests in subsidiaries) are presented separately from the Group’s equity attributable to owners of the Company therein.

Significant Accounting Policies continued

For the year ended 31 December 2022

2. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence. 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 or joint venture), 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.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

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 (including goodwill) 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 an associate or a joint venture of the Group, profits or losses resulting from the transactions with the associate or joint venture are recognized in the 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 fair value using the fair value model, adjusted to exclude any prepaid or accrued operating lease income. 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.

If a property becomes an owner-occupied property because its use has been changed as evidenced by commencement of owner-occupation, the fair value of the property at the date of change in use is considered as the deemed cost for subsequent accounting.

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 property (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 property 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 subsequent 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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents presented on the consolidated statement of financial position include:

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

6. 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 relevant 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.

Significant Accounting Policies continued

For the year ended 31 December 2022

7. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized 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 collect 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.

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 initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

(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 8 of the Notes to the Consolidated Financial Statements section.

(ii) Financial assets at FVTPL

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

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

Debt instruments that do not meet the amortized cost criteria 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 recognising the gains and losses on them on different bases.

7. FINANCIAL INSTRUMENTS continued

Financial assets continued

(a) Classification of financial assets continued

(ii) Financial assets at FVTPL continued

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 excludes any dividend earned on the financial asset and is included in other gains and losses. Fair value is determined in the manner described in note 4 of the Financial Risk Management section.

(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. Assessments are done based on both quantitative and qualitative information combined with current conditions and forward-looking analysis.

The Group always recognizes lifetime ECL for accounts receivables. For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case 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.

(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 and forward-looking information.

Generally, the ECL is 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 effective interest 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.

Significant Accounting Policies continued

For the year ended 31 December 2022

7. FINANCIAL INSTRUMENTS continued

Financial assets continued

(c) Measurement and recognition of ECL continued

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 and loans to associates 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

The Group derecognizes a financial asset only when the contractual rights to the 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 assets to another entity.

On derecognition of a financial asset measured at amortised cost, 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 which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

(a) Classification and measurement

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

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

(i) Effective interest method

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

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

(ii) Financial liabilities at FVTPL

Financial liabilities at FVTPL, representing those as held for trading, comprise derivatives that are not designated and effective 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 6 of the Notes to the Consolidated Financial Statements section.

7. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity instruments continued

(a) Classification and measurement continued

(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 liabilities are 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

The Group derecognizes financial liabilities when, and only when, the Group's obligation 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.

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 21 of the Notes to the Consolidated Financial Statements section.

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into 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 and fair value hedge.

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

Significant Accounting Policies continued

For the year ended 31 December 2022

7. FINANCIAL INSTRUMENTS continued

Hedge accounting continued

(a) Fair value hedges

The fair value change on qualifying hedging instruments is recognized in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. Where hedging gains or losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

(b) 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 line item.

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.

Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

(c) Discontinuation of hedge accountings

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, 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).

8. 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.

9. 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 of HKFRS16 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 a 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.

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.

For rent concession under which the Group legally releases the lessee from its obligation to make specifically identified lease payment, of which some of these lease payments are contractually due but not paid and some of them are not yet contractually due, the Group accounts for the portions which have been recognized as operating lease receivables (i.e. the lease payments which are contractually due but not paid) by applying the ECL and derecognition requirements under HKFRS 9 and applies lease modification requirements for the forgiven lease payments that the Group has not recognized (i.e. the lease payments which are not yet contractually due) as at the effective date of modification.

10. 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) using exchange rates prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in translation reserve.

Significant Accounting Policies continued

For the year ended 31 December 2022

11. 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.

12. RETIREMENT BENEFIT COSTS

Payments to defined construction retirement benefit plan, state-managed benefit scheme, Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

13. 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 of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred tax 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 associates, and interests in joint ventures, 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.

14. 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.

15. 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 consolidated 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 2022

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”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued HKICPA for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020

In addition, the Group applied agenda decision(s) of the Committee of the International Accounting Standards Board, including Lessor Forgiveness of Lease Payments (HKFRS 9 “Financial Instrument” and HKFRS 16 “Leases”) of the related agenda decision, which is relevant to the Group.

The application of the amendments to HKFRSs and the Committee’s agenda decision in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in a Sales and Leaseback ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1	Non-current liabilities with covenants ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

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

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

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 underlying 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\$96,787 million (2021: HK\$95,107 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, reversionary income potential and development 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

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 of properties for sale or leasing

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 2022					
Turnover					
Leasing of investment properties	1,468	1,373	212	–	3,053
Provision of property management services	175	205	27	–	407
Segment revenue	1,643	1,578	239	–	3,460
Property expenses	(276)	(229)	(62)	–	(567)
Segment profit	1,367	1,349	177	–	2,893
Investment income					248
Other gains and losses					(2)
Administrative expenses					(332)
Finance costs					(423)
Change in fair value of investment properties					(3,213)
Share of results of:					
associates					274
joint ventures					(52)
Loss before taxation					(607)

For the year ended 31 December 2021

Turnover

Leasing of investment properties	1,447	1,519	233	–	3,199
Provision of property management services	173	209	27	–	409
Segment revenue	1,620	1,728	260	–	3,608
Property expenses	(265)	(178)	(56)	–	(499)
Segment profit	1,355	1,550	204	–	3,109
Investment income					92
Other gains and losses					(8)
Administrative expenses					(274)
Finance costs					(393)
Change in fair value of investment properties					(720)
Share of results of:					
associates					458
a joint venture					(3)
Profit before taxation					2,261

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 and joint ventures. 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 2022					
Segment assets	31,549	36,919	8,725	23,264	100,457
Investments in and loans to associates					5,501
Investments in joint ventures					334
Other financial investments					2,035
Other assets					10,838
Consolidated assets					<u>119,165</u>
As at 31 December 2021					
Segment assets	31,921	34,715	8,715	21,199	96,550
Investments in and loans to associates					6,005
Investment in a joint venture					352
Other financial investments					1,780
Other assets					12,686
Consolidated assets					<u>117,373</u>

Segment assets represented the investment properties and accounts receivable of each segment and investment in and loans to joint ventures engaged in property development business.

Unallocated assets include investments in and loans to associates, investment in joint ventures, other financial investments and other assets which include property, plant and equipment, debt securities, other financial assets, deferred tax asset, 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.

Included in the property development segment is an investment property under development, which will be transferred to other segments upon completion of the development.

Included in the Retail and Office segment is an investment property located in the People Republic of China (the "PRC") accounting of HK\$642 million and HK\$3,370 million respectively.

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

All the Group's non-current assets excluding financial instruments and deferred tax assets are located in Hong Kong, except for those assets with carrying amounts of HK\$9,510 million (2021: HK\$7,522 million) which operate in the PRC.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

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 2022					
Additions to non-current assets	853	3,952	9	597	5,411
For the year ended 31 December 2021					
Additions to non-current assets	320	102	8	20,020	20,450

6. FINANCE COSTS

	2022 HK\$ million	2021 HK\$ million
Finance costs comprise:		
Interest on bank loans	288	18
Interest on fixed rate notes	544	524
Imputed interest on amounts due to non-controlling interests	46	34
Total interest expenses	878	576
Other finance costs	39	42
Less: amounts capitalised (Note)	(470)	(228)
	447	390
Net exchange losses on borrowings	7	62
Reclassification of net gains from hedging reserve on financial instruments designated as cash flow hedges	(34)	(62)
Medium Term Note Programme expenses	3	3
	423	393

Note:

During the year, interest expenses have been capitalised to investment properties under development at an average capitalization rate of 2.4% (2021: 2.9%) per annum.

7. TAXATION

	2022 HK\$ million	2021 HK\$ million
Current tax		
Hong Kong Profits Tax		
– current year	264	306
– under-provision in prior years	5	3
Deferred tax (note 27)	73	49
	342	358

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

	2022 HK\$ million	2021 HK\$ million
(Loss) profit before taxation	(607)	2,261
Tax at Hong Kong Profits Tax rate of 16.5 %	(100)	373
Tax effect of share of results of associates	(45)	(76)
Tax effect of share of results of joint ventures	9	–
Tax effect of expenses not deductible for tax purposes	569	126
Tax effect of income not taxable for tax purposes	(163)	(122)
Tax effect of estimated tax losses not recognized	73	54
Utilisation of estimated tax losses not previously recognized	(6)	–
Under-provision in prior years	5	3
Taxation for the year	342	358

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 27 of the Notes to the Consolidated Financial Statements section).

8. (LOSS) PROFIT FOR THE YEAR

	2022 HK\$ million	2021 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	32	29
Gross rental income from investment properties including rentals received with reference to turnover of tenants of HK\$117 million (2021: HK\$118 million)	(3,053)	(3,199)
Less:		
– Direct operating expenses arising from leasing of investment properties	177	167
	(2,876)	(3,032)
Interest income from loans to joint ventures (included in investment income)	(55)	(14)
Other interest income (included in investment income)	(118)	(78)
Staff costs (including directors' emoluments)	310	274
Share of income tax of associates (included in share of results of associates)	123	180

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

9. OTHER COMPREHENSIVE (EXPENSES) INCOME

	2022 HK\$ million	2021 HK\$ million
Other comprehensive (expenses) income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of properties held for own use:		
Loss on revaluation of properties held for own use (net of tax)	(6)	(18)
Change in fair value of equity instruments at fair value through other comprehensive income ("FVTOCI")	(42)	314
	(48)	296
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net gains arising during the year	51	42
Reclassification of net losses to profit or loss	(34)	(62)
	17	(20)
Exchange difference on translation of subsidiaries	(311)	–
Share of translation reserve of an associate	(557)	167
	(851)	147
Other comprehensive (expenses) income for the year (net of tax)	(899)	443

Tax effect relating to other comprehensive (expenses) income:

	2022			2021		
	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
Loss on revaluation of properties held for own use	(7)	1	(6)	(21)	3	(18)
Change in fair value of equity instruments at FVTOCI	(42)	–	(42)	314	–	314
Net adjustments to hedging reserve	17	–	17	(20)	–	(20)
Exchange difference on translation of subsidiaries	(311)	–	(311)	–	–	–
Share of translation reserve of an associate	(557)	–	(557)	167	–	167
	(900)	1	(899)	440	3	443

10. DIRECTORS' EMOLUMENTS

	2022 HK\$ million	2021 HK\$ million
Directors' fees	3	3
Other emoluments		
Basic salaries, housing and other allowances	14	13
Bonus (Notes d & f)	20	20
Share-based payments	4	4
	41	40

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2022 and 2021, 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 2022						
Executive Directors (Note a)						
Lee Irene Yun-Lien	–	8,185	14,008	2,907	18	25,118
Lui Kon Wai	–	5,602	6,048	1,254	18	12,922
Non-Executive Directors (Note b)						
Jebsen Hans Michael	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	418	–	–	–	–	418
Fan Yan Hok Philip	523	–	–	–	–	523
Poon Chung Yin Joseph	535	–	–	–	–	535
Wong Ching Ying Belinda	310	–	–	–	–	310
Young Elaine Carole (Note h)	253	–	–	–	–	253
	3,392	13,787	20,056	4,161	36	41,432
	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 2021						
Executive Director (Note a)						
Lee Irene Yun-Lien	–	8,002	15,200	2,867	18	26,087
Lui Kon Wai (Note i)	–	4,959	4,400	941	18	10,318
Non-Executive Directors (Note b)						
Jebsen Hans Michael	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	418	–	–	–	–	418
Fan Yan Hok Philip	523	–	–	–	–	523
Poon Chung Yin Joseph	535	–	–	–	–	535
Wong Ching Ying Belinda	310	–	–	–	–	310
	3,139	12,961	19,600	3,808	36	39,544

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

10. DIRECTORS' EMOLUMENTS continued

Notes:

- (a) The Executive Directors' 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, and Lui Kon Wai, Executive Director and Chief Operating Officer, are 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 2022, Lee Irene Yun-Lien's base salary of HK\$8,185,000 and the performance bonus of HK\$14,008,000 were approved by the Remuneration Committee in January 2022 and February 2023 respectively.

For the year ended 31 December 2022, Lui Kon Wai's base salary of HK\$5,602,000 and the performance bonus of HK\$6,048,000 were approved by the Remuneration Committee in January 2022 and February 2023 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 annual basis and paid semi-annually. For Directors not having served the full year on a position, the fees will be calculated and paid on pro rata basis.

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2022 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	2022 Total HK\$'000	2021 Total HK\$'000
Executive Directors							
Lee Irene Yun-Lien	-	-	-	-	-	-	-
Lui Kon Wai	-	-	-	-	-	-	-
Non-Executive Directors							
Jebsen Hans Michael	280	-	-	-	50	330	330
Lee Anthony Hsien Pin	280	108	-	-	-	388	388
Lee Chien	280	-	-	30	-	310	310
Lee Tze Hau Michael	280	-	45	-	-	325	325
Independent Non-Executive Directors							
Churchouse Frederick Peter	280	108	-	30	-	418	418
Fan Yan Hok Philip	280	108	75	30	30	523	523
Poon Chung Yin Joseph	280	180	45	30	-	535	535
Wong Ching Ying Belinda	280	-	-	-	30	310	310
Young Elaine Carole	229	-	-	-	24	253	-
	2,469	504	165	120	134	3,392	3,139

- (f) The annual cash remuneration of Lee Irene Yun-Lien, Chairman, and Lui Kon Wai, Executive Director and Chief Operating Officer, are 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 2021, Lee Irene Yun-Lien's base salary of HK\$8,002,000 and the performance bonus of HK\$15,200,000 were approved by the Remuneration Committee in January 2021 and January 2022 respectively.

Approved by the Remuneration Committee in September 2021, annual base salary of Lui Kon Wai had been adjusted to HK\$4,959,000 with effect from 1 October 2021. Performance bonus of HK\$4,400,000 were also approved by the Remuneration Committee in January 2022.

- (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 36 of the Notes to the Consolidated Financial Statements section.
- (h) Young Elaine Carole was appointed as an Independent Non-Executive Director of the Company and a member of the Sustainability Committee with effect from 9 March 2022.
- (i) Lui Kon Wai was appointed as the Executive Director and Chief Operating Officer with effect from 1 October 2021.

10. 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.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2021: two) were Directors of the Company, details of whose emoluments are included in note 10 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 2022 and 2021 were as follows:

	2022 HK\$ million	2021 HK\$ million
Basic salaries, housing and other allowances	24	22
Bonus	24	23
Share-based payments (Note)	5	5
	53	50

Note:

Share-based payments are the fair values of share options granted to Executive Directors 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 Directors or eligible employees exercise the share options or not during the year.

Their emoluments are within the following bands:

	Number of individuals	
	2022	2021
HK\$4,000,001 to HK\$4,500,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	1
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$10,000,001 to HK\$10,500,000	–	1
HK\$12,500,001 to HK\$13,000,000	1	–
HK\$25,000,001 to HK\$25,500,000	1	–
HK\$26,000,001 to HK\$26,500,000	–	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 Directors and other members of senior management of the Group. Their emoluments are within the following bands.

	Number of individuals	
	2022	2021
HK\$4,000,001 to HK\$5,000,000	2	2
HK\$5,000,001 to HK\$6,000,000	1	1
HK\$10,000,001 to HK\$11,000,000	–	1
HK\$12,000,001 to HK\$13,000,000	1	–
HK\$25,000,001 to HK\$26,000,000	1	–
HK\$26,000,001 to HK\$27,000,000	–	1
	5	5

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

12. DIVIDENDS

(a) Dividends recognized as distribution during the year:

	2022 HK\$ million	2021 HK\$ million
2022 first interim dividend paid – HK27 cents per share	277	–
2021 first interim dividend paid – HK27 cents per share	–	281
2021 second interim dividend paid – HK117 cents per share	1,209	–
2020 second interim dividend paid – HK117 cents per share	–	1,216
	1,486	1,497

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

	2022 HK\$ million	2021 HK\$ million
Second interim dividend (in lieu of a final dividend) – HK117 cents per share (2021: HK117 cents per share)	1,202	1,210

The second interim dividend is not recognized as a liability as at 31 December 2022 because it has been declared after the end of the reporting period. It will be payable in cash.

13. (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	
	2022 HK\$ million	2021 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	(1,157)	1,383
	Number of shares	
	2022	2021
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	1,029,856,659	1,038,238,085
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	–	95,159
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	1,029,856,659	1,038,333,244

During the year ended 31 December 2022, the computation of diluted loss per share does not assume the exercise of all of the Company's outstanding share options as their assumed exercise would result in a decrease in loss per share. During the year ended 31 December 2021, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares.

14. INVESTMENT PROPERTIES

	2022 HK\$ million	2021 HK\$ million
Fair Value		
At 1 January	95,107	74,993
Additions	5,411	20,450
Transfer (to) from property, plant and equipment	(171)	384
Change in fair value recognized in profit or loss – unrealized	(3,213)	(720)
Exchange difference	(347)	–
As at 31 December	96,787	95,107

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.

The fair value of the Group's investment properties as at 31 December 2022 and 2021 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 the respective 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 as their current use.

Investment properties in Hong Kong

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.

For investment properties under development, residual method of valuation was adopted. The value is based on the development potential of the properties as if they were completed in accordance with the existing development proposal at the date of valuation. The value has also taken into consideration all costs of development and allowance of profit required for the development, which duly reflected the risks associated with the development.

There has been no change to the valuation technique during the year for completed properties and properties under development in Hong Kong.

During the year ended 31 December 2021, the Group has successfully won the tender of a commercial site at Caroline Hill Road, Causeway bay, Hong Kong at a land premium of HK\$19,778 million. The land is classified as investment properties in the consolidated statement of financial position of the Group upon the completion of the acquisition.

As at 31 December 2022, the aggregate fair value of the investment properties under development of the Group in Hong Kong amounted to HK\$19,640 million have been pledged as securities for the Group's borrowings.

Notes to the Consolidated Financial Statements continued

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14. INVESTMENT PROPERTIES continued

Investment properties in Mainland China

During the year ended 31 December 2022, the Group acquired entire equity interests in Scorecity Investments Limited (“Scorecity”), being an indirect holder of a commercial complex located at Nos. 668 and 688 Xinzha Road, Shanghai, the PRC, from an independent third party for an aggregate cash consideration of approximately RMB3,500 million (equivalent to approximately HK\$4,235 million) (the “Acquisition”). The major assets of these Scorecity and its subsidiaries are completed investment properties in Mainland China. The Directors of the Company are of the opinion that the subsidiaries acquired do not constitute a business as defined in HKFRS 3 Business Combination, therefore, the Acquisition has been accounted for as acquisitions of assets rather than business combination.

Income capitalization approach – discounted cash flow (“DCF”) analysis was adopted for the valuation of such completed investment properties in Mainland China. The DCF analysis is based on prospective periodic net cash flow to operating properties, which is typically estimated as gross income less vacancy and operating expenses and other outgoings. The series of periodic net operating cash flow, along with an estimate of the reversionary or terminal value anticipated at the end of the projection period, is then discounted at the discount rate, being the cost of capital or the rate of required return, into present value. A 10-year investment horizon has been undertaken for the DCF analysis and the net income in the year eleven is capitalised at an appropriate yield.

Fair value measurements using significant unobservable inputs (Level 3)

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.

All of the fair value measurements of the Group’s investment properties were categorized into Level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during both years. Details of fair value hierarchy are set out as below.

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	Investment properties under development HK\$ million	Total HK\$ million
As at 1 January 2021	31,670	34,593	8,730	–	74,993
Additions	320	102	8	20,020	20,450
Transfer from property, plant and equipment	–	384	–	–	384
Change in fair value recognized in profit or loss – unrealized	(122)	(372)	(26)	(200)	(720)
As at 31 December 2021	31,868	34,707	8,712	19,820	95,107
Additions	853	3,952	9	597	5,411
Transfer to property, plant and equipment	–	(171)	–	–	(171)
Change in fair value recognized in profit or loss – unrealized	(1,166)	(1,273)	3	(777)	(3,213)
Exchange difference	(38)	(309)	–	–	(347)
As at 31 December 2022	31,517	36,906	8,724	19,640	96,787

14. 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	Significant unobservable inputs	Range/weighted average of unobservable inputs
	2022 HK\$ million	2021 HK\$ million			
Hong Kong					
Retail	30,875	31,868	Income capitalization approach	(i) Capitalization rate (ii) Prevailing market rent per month	5.25% – 5.50% (2021: 5.25% – 5.50%) HK\$123 per square foot (2021: HK\$125 per square foot)
Office	33,536	34,707	Income capitalization approach	(i) Capitalization rate (ii) Prevailing market rent per month	4.25% – 5.00% (2021: 4.25% – 5.00%) HK\$57 per square foot (2021: HK\$59 per square foot)
Residential	8,724	8,712	Income capitalization approach	(i) Capitalization rate (ii) Prevailing market rent per month	3.75% (2021: 3.75%) HK\$39 per square foot (2021: HK\$39 per square foot)
Investment properties under development	19,640	19,820	Residual method	(i) Capitalization rate (ii) Prevailing market rent per month	3.50% – 5.00% (2021: 3.50% – 5.00%) HK\$120 per square foot (2021: HK\$120 per square foot)
Mainland China					
Retail and Office	4,012	–	Discounted cash flow method	(i) Prevailing market rent per month (ii) Discount rate (iii) Stabilised growth rate	RMB23 per square foot 7.25% 4%

The higher the capitalization rate and discount rate, the lower the fair value, and vice versa.

The higher the stabilised growth rate, the higher the fair value, and vice versa.

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, and vice versa.

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15. 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 2021	781	126	114	2	1,023
Additions	25	11	36	–	72
Transfer to investment properties	(384)	–	–	–	(384)
Deficit on revaluation	(26)	–	–	–	(26)
As at 31 December 2021	396	137	150	2	685
Additions	–	4	14	1	19
Transfer from investment properties	171	–	–	–	171
Disposals	–	(19)	–	(1)	(20)
Deficit on revaluation	(13)	–	–	–	(13)
As at 31 December 2022	554	122	164	2	842
Comprising:					
At cost	–	122	164	2	288
At valuation	554	–	–	–	554
	554	122	164	2	842
ACCUMULATED DEPRECIATION					
As at 1 January 2021	–	111	78	–	189
Provided for the year	5	8	16	–	29
Eliminated on revaluation	(5)	–	–	–	(5)
As at 31 December 2021	–	119	94	–	213
Provided for the year	6	6	18	2	32
Disposals	–	(19)	–	(1)	(20)
Eliminated on revaluation	(6)	–	–	–	(6)
As at 31 December 2022	–	106	112	1	219
CARRYING AMOUNTS					
As at 31 December 2022	554	16	52	1	623
As at 31 December 2021	396	18	56	2	472

15. 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 2022 and 2021 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	Significant unobservable inputs	Range/weighted average of unobservable inputs
	2022 HK\$ million	2021 HK\$ million			
Leasehold land and buildings in Hong Kong	554	396	Income capitalization approach	(i) Capitalization rate (ii) Prevailing market rent per month	4.25 % – 5.00 % (2021: 4.25 % – 4.75 %) HK\$60 per square foot (2021: HK\$69 per square foot)

The higher the capitalization rate, the lower the fair value, and vice versa.

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, and vice versa.

The loss of HK\$6 million (2021: loss of HK\$21 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\$332 million (2021: HK\$166 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$54 million (2021: HK\$62 million) and accumulated depreciation of HK\$46 million (2021: HK\$52 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\$6 million (2021: HK\$5 million). There has been no disposal during both years ended 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements continued

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16. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the principal subsidiaries of the Company:

Name of subsidiaries	Place of establishment/ incorporation/ operation	Issued share capital/ registered 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 (Shanghai) Properties Limited	PRC	RMB2,021,750,000	–	100 % (Note)	Property investment
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
Patchway Holdings (HK) Limited	Hong Kong	HK\$1	–	60 %	Property investment
Patchway Holdings Limited	British Virgin Islands	US\$10	–	60 %	Investment holding
Perfect Win Properties Limited	Hong Kong	HK\$2	–	100 %	Property investment
Silver Nicety Company Limited	Hong Kong	HK\$20	–	100 %	Property investment

Note:

The entity was acquired through acquisition of Scorecity in 2022, as detailed in note 14 of the Notes to Consolidated Financial Statement section.

16. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY continued

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 26 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.

During the year ended 31 December 2021, the Group entered into an agreement to allot 40% of the enlarged equity interest of Patchway Holdings Limited ("Patchway") to an independent third party, Coastday Limited ("Coastday").

The Group's subsidiaries that have material non-controlling interests includes Barrowgate, Patchway and Elect Global Investments Limited ("Elect Global"). Elect Global's issued ordinary shares are fully held by the Group. As disclosed in note 28 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.

The summarized financial information in respect of Barrowgate and Patchway are set out below. The summarized financial information below represents amounts before intragroup eliminations.

	2022		2021	
	Barrowgate HK\$ million	Patchway HK\$ million	Barrowgate HK\$ million	Patchway HK\$ million
Current assets	146	8	219	1
Non-current assets	9,480	19,720	9,659	19,820
Current liabilities	(792)	(223)	(800)	–
Non-current liabilities	(236)	(19,499)	(201)	(19,025)
Turnover	455	–	498	–
Profit (loss) and total comprehensive income (expenses) for the year	33	(648)	243	(58)
Dividends paid to non-controlling interests	107	–	121	–
Net cash inflows from operating activities	298	1	341	–
Net cash outflows used in investing activities	(47)	–	(77)	–
Net cash outflows used in financing activities	(306)	–	(360)	–

17. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES

	2022 HK\$ million	2021 HK\$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	5,489	5,993
	5,491	5,995
Loans to associates classified as:		
Non-current assets	10	10

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.

Notes to the Consolidated Financial Statements continued

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17. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES continued

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 2022 and 2021 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".

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

	2022 HK\$ million	2021 HK\$ million
Current assets	2,184	2,505
Non-current assets	27,722	30,183
Current liabilities	(1,092)	(1,317)
Non-current liabilities	(6,570)	(7,099)
Turnover	1,807	1,867
Profit for the year	1,115	1,852
Other comprehensive (expenses) income for the year	(2,243)	671
Total comprehensive (expenses) income for the year	(1,128)	2,523
Dividends received from the associate during the year	221	207

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:

	2022 HK\$ million	2021 HK\$ million
Net assets of the associate	22,244	24,272
Non-controlling interests of the associate	(1,332)	(1,444)
Net assets of the associate after deducting non-controlling interests of the associate	20,912	22,828
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	5,500	6,004
Others	(2)	(2)
Carrying amount of the Group's interest in the associate	5,498	6,002

18. INVESTMENTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES

Details of the Group's investments in and loans to joint ventures are as follows:

	2022 HK\$ million	2021 HK\$ million
Investments in joint ventures		
Unlisted shares, at cost	352	355
Deemed capital contribution in a joint venture (Note a)	173	123
Share of post-acquisition loss and other comprehensive expense, net of dividends received	(52)	(3)
	473	475
Loans to joint ventures classified as:		
Non-current assets (Note b)	3,485	1,256

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 joint ventures are unsecured and have no fixed repayment terms. As at 31 December 2022, except for the loans to joint ventures with aggregate carrying amounts of HK\$1,376 million (2021: HK\$120 million) which are carrying variable rates ranging from 2.19% to 6.44% (2021: 2.06% to 2.20%) per annum, the remaining loans to joint ventures 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 ventures as at 31 December 2022 and 2021 are as follows:

Name of joint ventures	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 % (2021: 60 %) (Note b)	Investment holding
Gainwick Limited (Note a)	Hong Kong	Ordinary share of HK\$1	60 % (2021: 60 %) (Note b)	Property development and investment
H & I GBA Investment Limited (Note c)	Hong Kong	Ordinary shares of US\$90,000,000	50 % (2021: 50 %)	Investment holding
Nation Star Development Limited (Note d)	Hong Kong	Ordinary shares of HK\$1	25 % (2021: N/A)	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.
- (c) The subsidiaries of H & I GBA Investment Limited principally engaged in IWG GBA Flex business.
- (d) Nation Star Development Limited ("Nation Star") principally engaged in property development business. The investment was acquired in February 2022.

Notes to the Consolidated Financial Statements continued

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18. INVESTMENTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES continued

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.

	2022		2021
	Strongbod HK\$ million	Nation Star HK\$ million	Strongbod HK\$ million
Current assets	7,059	6,869	6,191
Non-current assets	–	1,610	–
Current liabilities	(3,356)	(3)	(346)
Non-current liabilities	(3,763)	(8,476)	(5,845)
Loss and total comprehensive expenses for the year	(58)	–	–

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:

	2022		2021
	Strongbod HK\$ million	Nation Star HK\$ million	Strongbod HK\$ million
Net liabilities of the joint ventures	(60)	–	–
Proportion of the Group's ownership interest in the joint ventures	60%	25%	60%
Group's share of net liabilities of the joint ventures	(36)	–	–
Add: Deemed capital contribution in the joint ventures	173	–	123
Carrying amount of the Group's interest in the joint ventures	137	–	123

19. OTHER FINANCIAL INVESTMENTS

	2022 HK\$ million	2021 HK\$ million
Investment designated as at FVTOCI		
– Investment in equity security listed overseas (Note a)	–	268
– Investments in unlisted equity securities (Note a)	1,708	1,205
Investment at FVTPL		
– Unlisted investment in a fund investment (Note b)	327	307
	2,035	1,780

Notes:

- These investments are designated as at FVTOCI because the Directors of the Company believe that the Group's strategy of holding these investments is for long-term strategic purpose. All these investees are principally engaged in healthcare services business in China.
- The balance represents the Group's interest in a fund investment as limited partner. The fund investment engages in property investment in Asia Pacific. The fund investment is classified as FVTPL.

20. DEBT SECURITIES

	2022 HK\$ million	2021 HK\$ million
Debt securities, at amortized cost:		
– listed in Hong Kong	798	820
– listed overseas	194	194
Total	992	1,014
Analysed for reporting purposes as:		
Current assets	–	171
Non-current assets	992	843
	992	1,014

As at 31 December 2022, the effective yield of the debt securities ranged from 1.22% to 4.92% (2021: 1.22% to 4.85%) per annum, payable quarterly, semi-annually or annually, and the securities will mature from June 2024 to January 2052 (2021: from February 2022 to February 2051). 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.

21. OTHER FINANCIAL ASSETS/LIABILITIES

	Current		Non-current	
	2022 HK\$ million	2021 HK\$ million	2022 HK\$ million	2021 HK\$ million
Other financial assets				
Financial assets measured at FVTPL:				
Club debenture	–	–	1	1
Derivatives under hedge accounting:				
Cash flow hedges				
– Cross currency swaps	15	–	367	8
– Interest rate swaps	–	–	15	–
Total	15	–	383	9
Other financial liabilities				
Derivatives under hedge accounting:				
Cash flow hedges				
– Cross currency swaps	–	–	117	79
Fair value hedges				
– Interest rate swaps	–	–	397	70
Total	–	–	514	149

(a) Cash flow hedges

(i) Foreign currency risk

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.

Notes to the Consolidated Financial Statements continued

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21. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges continued

(i) Foreign currency risk continued

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

	2022					2021				
	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										
<i>Hedging of USD fixed rate notes</i> (Note)										
Less than 1 year	7.7519	USD	300	2,326	15	–	–	–	–	–
More than 1 year but not exceeding 5 years	7.8500	USD	400	3,140	367	7.7519	USD	300	2,326	8
More than 5 years	7.8465	USD	725	5,689	(117)	7.8477	USD	1,125	8,829	(79)
Total				11,155	265				11,155	(71)

* 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 (2021: HK\$11,155 million) cross currency swaps to convert USD interest and principal of US\$1,425 million (2021: US\$1,425 million) fixed rate notes into HKD.

Hedged items

	Carrying amount of the hedged item				Cash flow hedge reserves	
	Assets		Liabilities		2022 HK\$ million	2021 HK\$ million
	2022 HK\$ million	2021 HK\$ million	2022 HK\$ million	2021 HK\$ million		
USD fixed rate notes	–	–	11,117	11,045	(159)	(161)

The hedging ineffectiveness for the years ended 31 December 2022 and 2021 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
	2022 HK\$ million	2021 HK\$ million	2022 HK\$ million	2021 HK\$ million	
Cross currency swaps	36	42	(34)	(62)	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.

21. OTHER FINANCIAL ASSETS/LIABILITIES *continued*

(a) Cash flow hedges *continued*

(ii) Interest rate risk

The Group used interest rate swaps to hedge its interest rate risk exposure. The terms of the swaps have been negotiated to match the major terms of the respective hedged underlying items so that the management considers that the interest rate swaps are highly effective hedging instruments.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these outstanding interest rate swaps at the end of the reporting period are as follows:

Hedging instruments

	2022			2021		
	Average Interest rate*	Notional amount HK\$ million	Fair value HK\$ million	Average Interest rate*	Notional amount HK\$ million	Fair value HK\$ million
Interest rate swaps						
Hedging interest of HKD bank loans (Note)						
More than 1 year not exceeding 5 years	3.45%	1,000	15	–	–	–

* Average interest rate represented the average fixed interest rate paid by the Group against receipts of 3-month HIBOR weighted by the notional amounts of the swaps.

Note:

The Group used HK\$1,000 million interest rate swaps to manage its exposure to interest rate changes of the quarterly interest payments of HKD bank loans.

Hedged items

	Carrying amount of the hedged item		Cash flow hedge reserves	
	Liabilities			
	2022 HK\$ million	2021 HK\$ million	2022 HK\$ million	2021 HK\$ million
HKD bank loans	1,000	–	15	–

The hedging ineffectiveness for the years ended 31 December 2022 and 2021 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
	2022 HK\$ million	2021 HK\$ million	2022 HK\$ million	2021 HK\$ million	
	Interest rate swaps	15	–	–	

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

21. OTHER FINANCIAL ASSETS/LIABILITIES continued

(b) Fair value hedges

The Group used interest rate swaps to minimise its exposure to fair value changes of its USD fixed rate notes by swapping the notes from fixed rates to floating rates. The major terms of the interest rate swaps match the corresponding notes and the management considers that the swaps are highly effective hedging instruments.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these outstanding interest rate swaps at the end of the reporting period are as follows:

	2022			2021		
	Average Interest rate*	Notional amount HK\$ million	Fair value HK\$ million	Average Interest rate*	Notional amount HK\$ million	Fair value HK\$ million
Interest rate swaps						
More than 1 year not exceeding 5 years	2.88%	3,140	(397)	2.88%	400	(70)

* The average interest rate represented the average fixed interest rate (weighted by the notional amounts of the interest rate swaps) received by the Group against payments of 3-month HIBOR.

Note:

As at 31 December 2022, the Group designated fixed-to-floating interest rate swaps with notional amount of HK\$3,140 million (2021: HK\$400 million) to hedge USD fixed rate notes with notional amount of US\$400 million (2021: US\$400 million) by converting fixed rate of 2.88% per annum (2021: 2.88% per annum) to HIBOR plus 2.02% per annum (2021: HIBOR plus 2.02% per annum).

As a result of the hedge accounting, the carrying amount of the hedged item as at 31 December 2022 was adjusted by cumulative losses of HK\$397 million (2021: HK\$70 million). The changes in fair values of the notes for the hedged risk were included in profit or loss at the same time that the changes in fair value of the swaps were included in profit or loss.

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

(c) 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.

22. ACCOUNTS AND OTHER RECEIVABLES

	2022 HK\$ million	2021 HK\$ million
Accounts receivable	46	64
Interest receivable	175	111
Prepayments in respect of investment properties	235	132
Deposit for acquisition of a subsidiary	–	1,520
Other receivables and prepayments	548	895
Total	1,004	2,722
Analysed for reporting purposes as:		
Current assets	562	887
Non-current assets	442	1,835
	1,004	2,722

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.

	2022 HK\$ million	2021 HK\$ million
Less than 30 days	21	28
31-90 days	16	30
Over 90 days	9	6
	46	64

23. TIME DEPOSITS/CASH AND CASH EQUIVALENTS

Time deposits, cash and bank balances include bank deposits for the purpose of meeting the Group's short term cash commitments, carrying effective interest rates ranging from 0.01 % to 5.87 % (2021: 0.01 % to 0.62 %) per annum.

As at 31 December 2022 and 2021, 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.

24. ACCOUNTS PAYABLE AND ACCRUALS

	2022 HK\$ million	2021 HK\$ million
Accounts payable	295	193
Interest payable	192	155
Other payables	539	472
	1,026	820

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$193 million (2021: HK\$143 million) were aged less than 90 days.

25. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

	2022 HK\$ million	2021 HK\$ million
Current (Note a)	214	214
Non-current (Note b)	4,635	7,639
	4,849	7,853

Notes:

- (a) The balances are unsecured, interest-free and repayable on demand.
- (b) The balance is unsecured, interest-free and for the development of a commercial site at Caroline Hill Road, Causeway Bay, Hong Kong. During the year ended 31 December 2022, amounts due to non-controlling interests amounting to HK\$3,164 million were repaid upon a bank loan being obtained.

26. BORROWINGS

	2022 HK\$ million	2021 HK\$ million
Secured bank loans	7,833	–
Unsecured bank loans	2,707	1,561
Unsecured fixed rate notes	16,737	17,096
	27,277	18,657
Less: Amount due within 1 year included under current liabilities	(3,244)	(531)
	24,033	18,126

The carrying amounts of the above bank loans and fixed rate notes are repayable as follows:

	Bank loans		Fixed rate notes	
	2022 HK\$ million	2021 HK\$ million	2022 HK\$ million	2021 HK\$ million
Within one year	499	–	2,745	531
In the second year	568	498	149	2,742
In the third year to fifth year	9,473	1,063	5,940	2,185
After the fifth year	–	–	7,903	11,638
	10,540	1,561	16,737	17,096

All the bank loans are guaranteed as to principal and interest and are carrying variable-rate. Interest rates of the loans are normally re-fixed at every one to three months. The effective interest rates (which were also equal to contracted interest rates) were 2.82 % (2021: 1.83 %) per annum at the end of the reporting period.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

26. 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:

	2022		2021	
	HK\$ %	US\$ %	HK\$ %	US\$ %
Unsecured fixed rate notes	1.50 – 4.50	2.82 – 3.55	1.50 – 4.50	2.74 – 3.74

As detailed in note 21 of the Notes to the Consolidated Financial Statements section, during the years ended 31 December 2022 and 2021, cross currency swaps and interest rate swaps were used to hedge or manage the foreign exchange rate risks of the Group's USD fixed rate notes and interest rate risks of the Group's HKD bank loans respectively.

As at 31 December 2022, the Group's assets pledged as securities for borrowings are disclosed in note 14 of the Notes to the Consolidated Financial Statements section.

27. DEFERRED TAX ASSETS/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 2021	1,028	90	(169)	949
Charge (credit) to profit or loss (note 7)	85	(6)	(30)	49
Charge to other comprehensive income	–	3	–	3
As at 31 December 2021	1,113	87	(199)	1,001
Charge (credit) to profit or loss (note 7)	80	(2)	(5)	73
Charge to other comprehensive income	–	1	–	1
As at 31 December 2022	1,193	86	(204)	1,075

At the end of the reporting period, the Group has unused estimated tax losses of HK\$2,780 million (2021: HK\$2,338 million) available for offset against future profits. A deferred tax asset has been recognized in respect of HK\$1,235 million (2021: HK\$1,205 million) of such losses. No deferred tax asset has been recognized in respect of the remaining HK\$1,545 million (2021: HK\$1,133 million) due to the unpredictability of future profit streams and the tax losses may be carried forward indefinitely.

28. PERPETUAL CAPITAL SECURITIES

In 2020, 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 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 Subordinated Securities and Senior 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.

During the year ended 31 December 2022, the Group repurchased perpetual capital securities with principal amount of HK\$425 million with cash consideration at HK\$399 million.

29. SHARE CAPITAL

	Number of shares	Share capital HK\$ million
Ordinary shares, issued and fully paid:		
As at 1 January 2021	1,039,700,891	7,722
Issue of shares under share option schemes	57,332	1
Cancellation upon repurchase of own shares (Note)	(5,500,000)	–
As at 31 December 2021	1,034,258,223	7,723
Cancellation upon repurchase of own shares (Note)	(7,250,000)	–
As at 31 December 2022	1,027,008,223	7,723

During the year ended 31 December 2022, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2022	Number of ordinary shares repurchased (Note)	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
February	1,050,000	23.40	22.80	24
March	950,000	23.45	20.15	21
April	1,500,000	23.55	23.00	36
May	500,000	23.25	22.70	11
June	1,400,000	23.95	22.45	33
July	350,000	23.75	23.25	8
August	500,000	23.30	22.20	11
September	600,000	22.20	19.36	10
October	400,000	20.25	17.06	8
	7,250,000			162

During the year ended 31 December 2021, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2021	Number of ordinary shares repurchased (Note)	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
June	100,000	29.95	29.95	3
August	1,600,000	28.50	27.45	45
September	1,700,000	27.60	24.20	42
October	1,500,000	27.30	24.75	40
November	600,000	27.10	26.25	16
	5,500,000			146

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 2022 and 2021, 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. All ordinary shares repurchased in 2022 and 2021 were cancelled during the years ended 31 December 2022 and 2021 respectively.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2022 HK\$ million	2021 HK\$ million
Non-current assets		
Investments in subsidiaries	2,238	2,230
Other financial assets	1	1
Amounts due from subsidiaries	7,045	6,988
	9,284	9,219
Current assets		
Other receivables	31	12
Amounts due from subsidiaries	3,141	2,655
Cash and cash equivalents	1	1,657
	3,173	4,324
Current liabilities		
Other payables and accruals	84	63
Amounts due to subsidiaries	1,454	976
	1,538	1,039
Net current assets	1,635	3,285
Net assets	10,919	12,504
Capital and reserves		
Share capital (note 29)	7,723	7,723
Reserves	3,196	4,781
Total equity	10,919	12,504

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on 17 February 2023 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lui Kon Wai
Director

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

Movement in the Company's reserve

	Share options reserve HK\$ million	General reserve HK\$ million (Note)	Retained profits HK\$ million	Total HK\$ million
As at 1 January 2021	27	100	5,534	5,661
Recognition of equity-settled share-based payments	5	–	–	5
Forfeiture of share options	(1)	–	–	(1)
Repurchase of own shares	–	–	(146)	(146)
Profit and total comprehensive income for the year	–	–	758	758
Forfeiture of unclaimed dividends	–	–	1	1
Dividends paid during the year (note 12)	–	–	(1,497)	(1,497)
As at 31 December 2021	31	100	4,650	4,781
Recognition of equity-settled share-based payments	7	–	–	7
Forfeiture of share options	(2)	–	–	(2)
Repurchase of own shares	–	–	(162)	(162)
Profit and total comprehensive income for the year	–	–	57	57
Forfeiture of unclaimed dividends	–	–	1	1
Dividends paid during the year (note 12)	–	–	(1,486)	(1,486)
As at 31 December 2022	36	100	3,060	3,196

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 2022 amounted to HK\$3,160 million (2021: HK\$4,750 million), being its general reserve and retained profits at that date.

31. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES

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.

	Amounts due to non-controlling interests HK\$ million	Borrowings and other interest-bearing liabilities HK\$ million	Total HK\$ million
As at 1 January 2021	217	19,131	19,348
Cash flows, net	7,908	(966)	6,942
Other non-cash changes			
Foreign exchange adjustments	–	60	60
Finance costs	–	393	393
Interest capitalised	34	194	228
Deemed contribution from a non-controlling shareholder	(306)	–	(306)
As at 31 December 2021	7,853	18,812	26,665
Cash flows, net	(3,164)	7,948	4,784
Other non-cash changes			
Foreign exchange adjustments	–	(44)	(44)
Finance costs	–	423	423
Interest capitalised	138	332	470
Deemed distribution to a non-controlling shareholder	22	–	22
As at 31 December 2022	4,849	27,471	32,320

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

32. RETIREMENT BENEFITS PLANS

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

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

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

Total contributions made by the Group during the year amounted to HK\$10 million (2021: HK\$10 million).

33. COMMITMENTS

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

	2022 HK\$ million	2021 HK\$ million
(a) Capital commitment: Contracted but not provided for investment properties and property, plant and equipment	1,723	2,933
(b) Other commitment: Subscription to a fund investment as limited partner	45	65

34. LEASE COMMITMENTS

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

	2022 HK\$ million	2021 HK\$ million
Within one year	2,147	2,574
In the second year	1,455	1,590
In the third year	794	973
In the fourth year	529	536
In the fifth year	436	448
Over five years	374	775
	5,735	6,896

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.

35. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions and balances with related parties

During the year, the Group has transaction with related party including interest income on loans to joint ventures, imputed interest income on interest-free loan to a joint venture and imputed interest expense on interest-free amounts due to non-controlling interests as disclosed under notes 6, 8, 18 and 25 of the Notes to the Consolidated Financial Statements section respectively. The imputed interest expense arising from the amounts due to non-controlling interests during the year has been fully capitalised into investment properties under development. The interest income on loans to joint ventures during the year is amounted to HK\$31 million (2021: HK\$1 million).

At the end of the reporting period, the Group has several balances with related parties including loans to associates and loans to joint ventures as disclosed under note 17 and note 18 of the Notes to the Consolidated Financial Statements section.

The Group has 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.

The Group has entered into the escrow agreement with The Hongkong and Shanghai Banking Corporation Limited on 17 September 2021, an intermediate holding company of Imenson Limited (“Imenson”), with an escrowed amount of HK\$1,370 million. As at 31 December 2021, the outstanding amounts held under such escrow agreement has been included under the other receivables and prepayments and deposit for acquisition of a subsidiary as set out under note 22 of the Notes to the Consolidated Financial Statements section. The amount has been utilized upon the completion on acquisition of a subsidiary during the year ended 31 December 2022.

	Gross rental income received from Year ended 31 December		Amounts due to non-controlling interests At 31 December	
	2022 HK\$ million	2021 HK\$ million	2022 HK\$ million	2021 HK\$ million
Related companies controlled by the Directors of the Company (Note a (i) & (ii))	56	38	61	61
Non-controlling shareholders of subsidiaries (Note b (i) & (ii))	25	6	4,788	7,792
Joint venture and associate (Note c)	61	–	–	–

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 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, 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 loans advanced to Barrowgate by Imenson and Patchway by Coastday, as shareholder loans in proportion to its shareholding in Barrowgate and Patchway respectively. The amounts advanced to Barrowgate are unsecured, interest-free and repayable on demand. The amount advanced to Patchway is unsecured, interest-free and for the development of a commercial site at Caroline Hill Road, Causeway Bay, Hong Kong
- (c) Rental income is charged in accordance with respective tenancy agreements.

(b) Compensation of key management personnel

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

	2022 HK\$ million	2021 HK\$ million
Directors’ fees, salaries and other short-term employee benefits	53	49
Share-based payments	5	5
Retirement benefits scheme contributions	1	1
	59	55

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

For the year ended 31 December 2022

36. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The 2005 Scheme

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

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

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

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

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

The New Scheme

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

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

36. SHARE-BASED PAYMENT TRANSACTIONS continued

(a) Equity-settled share option scheme continued

The New Scheme continued

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 2,084,000 (2021: 1,607,000) 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 2022

36. 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 1.1.2022	Changes during the year			Balance as at 31.12.2022
					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
Other employee participants								
	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	61,000	–	–	–	61,000
				1,239,000	–	–	(157,000)	1,082,000
New Scheme								
Executive Directors								
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	21.2.2021 – 20.2.2030	650,000	–	–	–	650,000
	26.2.2021	33.05	26.2.2022 – 25.2.2031	664,000	–	–	–	664,000
	28.2.2022	23.25 (Note c)	28.2.2023 – 27.2.2032	–	819,000	–	–	819,000
Lui Kon Wai	29.3.2018	41.50	29.3.2019 – 28.3.2028	179,000	–	–	–	179,000
	29.3.2019	42.05	29.3.2020 – 28.3.2029	203,000	–	–	–	203,000
	31.3.2020	25.20	31.3.2021 – 30.3.2030	262,000	–	–	–	262,000
	31.3.2021	30.40	31.3.2022 – 30.3.2031	267,000	–	–	–	267,000
	28.2.2022	23.25 (Note c)	28.2.2023 – 27.2.2032	–	400,000	–	–	400,000

36. 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 1.1.2022	Changes during the year			Balance as at 31.12.2022
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Other employee participants	31.3.2016	33.05	31.3.2017 – 30.3.2026	106,000	–	–	–	106,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	208,667	–	–	–	208,667
	29.3.2018	41.50	29.3.2019 – 28.3.2028	260,000	–	–	–	260,000
	29.3.2019	42.05	29.3.2020 – 28.3.2029	393,000	–	–	–	393,000
	31.3.2020	25.20	31.3.2021 – 30.3.2030	498,000	–	–	–	498,000
	31.3.2021	30.40	31.3.2022 – 30.3.2031	611,000	–	–	(6,000)	605,000
	31.3.2022	23.36 (Note d)	31.3.2023 – 30.3.2032	–	865,000	–	(5,000)	860,000
					5,844,067	2,084,000	–	(11,000)
Exercisable at the end of the year								5,424,381

Notes:

- All options granted have a vesting period of three years in equal proportions starting from the first anniversary of the grant and become fully vested on the third anniversary. "Exercise period" accordingly begins with the first anniversary of the date of grant.
- Options lapsed during the year in accordance with the rules of the Schemes.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 25 February 2022) was HK\$23.10.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2022) was HK\$23.30.

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 2022.

Notes to the Consolidated Financial Statements continued

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36. 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 1.1.2021	Changes during the year			Balance as at 31.12.2021
					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
Other employee participants								
	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	–	–	(1,667)	61,000
				1,272,667	–	–	(33,667)	1,239,000
New Scheme								
Executive Directors								
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	21.2.2021 – 20.2.2030	650,000	–	–	–	650,000
	26.2.2021	33.05 (Note d)	26.2.2022 – 25.2.2031	–	664,000	–	–	664,000
Lui Kon Wai (Note f)	29.3.2018	41.50	29.3.2019 – 28.3.2028	179,000	–	–	–	179,000
	29.3.2019	42.05	29.3.2020 – 28.3.2029	203,000	–	–	–	203,000
	31.3.2020	25.20	31.3.2021 – 30.3.2030	262,000	–	–	–	262,000
	31.3.2021	30.40 (Note e)	31.3.2022 – 30.3.2031	–	267,000	–	–	267,000

36. 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 1.1.2021	Changes during the year			Balance as at 31.12.2021
					Granted	Exercised	Cancelled/lapsed (Note b)	
Other employee participants	31.3.2016	33.05	31.3.2017 – 30.3.2026	125,000	–	–	(19,000)	106,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	244,667	–	–	(36,000)	208,667
	29.3.2018	41.50	29.3.2019 – 28.3.2028	315,000	–	–	(55,000)	260,000
	29.3.2019	42.05	29.3.2020 – 28.3.2029	555,000	–	–	(162,000)	393,000
	31.3.2021	25.20	31.3.2021 – 30.3.2030	690,000	–	(57,332) (Note c)	(134,668)	498,000
	31.3.2022	30.40 (Note e)	31.3.2022 – 30.3.2031	–	676,000	–	(65,000)	611,000
				4,766,067	1,607,000	(57,332)	(471,668)	5,844,067
Exercisable at the end of the year								4,234,317

Notes:

- All options granted have a vesting period of three years in equal proportions starting from the first anniversary of the grant and become fully vested on the third anniversary. "Exercise period" accordingly begins with the first anniversary of the date of grant.
- Options lapsed during the year in accordance with the rules of the Schemes.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$30.58.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 25 February 2021) was HK\$33.25.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2021) was HK\$31.50.
- Lui Kon Wai, currently Chief Operating Officer, was appointed as an Executive Director with effect from 1 October 2021.

In respect of the share options exercised during the year ended 31 December 2021, the weighted average share price at the dates of exercise was HK\$30.41.

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 2021.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2022

36. 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\$7 million (2021: HK\$5 million) in relation to share options granted by the Company, of which HK\$4 million (2021: HK\$4 million) related to the Directors (see note 10 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	31.3.2022	28.2.2022	31.3.2021	26.2.2021
Closing share price at the date of grant	HK\$22.900	HK\$23.000	HK\$30.400	HK\$33.050
Exercise price	HK\$23.360	HK\$23.250	HK\$30.400	HK\$33.050
Risk free rate (Note a)	2.010%	1.451%	0.817%	0.726%
Expected life of option (Note b)	5 years	5 years	5 years	5 years
Expected volatility (Note c)	27.636%	27.722%	27.100%	26.899%
Expected dividend per annum (Note d)	HK\$1.426	HK\$1.426	HK\$1.408	HK\$1.388
Estimated fair values per share option	HK\$3.400	HK\$3.370	HK\$4.770	HK\$5.560

Notes:

- 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.
- Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- Expected volatility: being the appropriate historical volatility of closing prices of the shares of the Company over the past 5 years immediately before the date of grant.
- Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years.

Financial Risk Management

For the year ended 31 December 2022

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loans to associates, loans to joint ventures, 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 section. 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 joint ventures, 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

Financial Risk Management continued

For the year ended 31 December 2022

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(a) Credit risk and impairment assessment continued

Loans to associates and joint ventures

The Group regularly monitors the business performance of the associates and joint ventures. 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 2022, these loans with gross carrying amount of HK\$3,503 million (2021: HK\$1,272 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. Deposits of acquisition of a subsidiary were held in escrow by financial institution with strong credit rating. As at 31 December 2022, accounts and other receivables with gross carrying amount of HK\$1,004 million (2021: HK\$2,722 million) are considered to be performing and were assessed individually based on the respective lifetime ECL and 12-month ECL.

Debt securities, time deposits, bank balances and derivative financial instruments

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 2022, debt securities, time deposits and bank balances and derivative financial instruments with gross carrying amount of HK\$9,161 million (2021: HK\$9,429 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 joint ventures, the Group does not have any other significant concentration of credit risk.

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

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(a) Credit risk and impairment assessment continued

	Loss allowance for	
	Loans to a joint venture HK\$ million	Debt securities HK\$ million
As at 1 January 2021	6	11
Net reversal of impairment loss under ECL model	–	(8)
As at 31 December 2021	6	3
Net impairment loss under ECL model	2	–
As at 31 December 2022	8	3

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.

(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, the undiscounted amount is derived based on management's best estimates at the end of the reporting period, taking into consideration interest rate curve, if available. For cash flows denominated in currency other than Hong Kong dollars ("HKD"), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

Financial Risk Management continued

For the year ended 31 December 2022

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk continued

	Carrying amount HK\$ million	Total contractual undiscouted cash flow HK\$ million	Within 1 year or on demand HK\$ million	In the second year HK\$ million	In the third year to fifth year HK\$ million	After the fifth year HK\$ million
As at 31 December 2022						
Non-derivative financial liabilities						
Accounts payable and accruals	(1,026)	(1,026)	(1,026)	–	–	–
Deposits from tenants	(885)	(885)	(387)	(220)	(235)	(43)
Amounts due to non-controlling interests	(4,849)	(5,051)	(214)	–	(4,837)	–
Secured bank loans	(7,833)	(9,551)	(403)	(403)	(8,745)	–
Unsecured bank loans	(2,707)	(3,155)	(139)	(639)	(2,377)	–
Unsecured fixed rate notes	(16,737)	(19,770)	(3,214)	(562)	(7,025)	(8,969)
	(34,037)	(39,438)	(5,383)	(1,824)	(23,219)	(9,012)
As at 31 December 2021						
Non-derivative financial liabilities						
Accounts payable and accruals	(820)	(820)	(820)	–	–	–
Deposits from tenants	(918)	(918)	(372)	(249)	(262)	(35)
Amounts due to non-controlling interests	(7,853)	(8,125)	(214)	(3,164)	–	(4,747)
Unsecured bank loans	(1,561)	(1,309)	(14)	(514)	(781)	–
Unsecured fixed rate notes	(17,096)	(20,658)	(1,050)	(3,210)	(3,366)	(13,032)
	(28,248)	(31,830)	(2,470)	(7,137)	(4,409)	(17,814)

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\$2,100 million and HK\$3,000 million as at 31 December 2022 and 2021 respectively, 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 (outflows) inflows 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 2022						
Derivative settled net						
Interest rate swaps	(397)	(52)	(7)	3	(48)	–
Derivative settled gross						
Cross currency swaps	265					
Outflow		(13,146)	(2,613)	(267)	(3,893)	(6,373)
Inflow		13,111	2,643	262	3,862	6,344
As at 31 December 2021						
Derivative settled net						
Interest rate swaps	(70)	(14)	13	21	(34)	(14)
Derivative settled gross						
Cross currency swaps	(71)					
Outflow		(13,497)	(351)	(2,613)	(800)	(9,733)
Inflow		13,447	344	2,642	786	9,675

Financial Risk Management continued

For the year ended 31 December 2022

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(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 20 of the Notes to Consolidated Financial Statements section).

As at 31 December 2022, about 39 % (2021: 25 %) 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.

As at 31 December 2022, included in the Group's borrowings is an unsecured USD bank loan amounted to HK\$468 million carrying variable interests with reference to the London Interbank Offered Rate that may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators. The management of the Group considers the impact of the interest rate benchmark reform to the Group's financial position and financial performance will not be significant.

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") (2021: +100 and -25 basis points) was applied to the HKD and US dollars ("USD") yield curves at the end of the reporting period. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions.

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

	(Decrease) increase 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 2022	(51)	13	394	(109)
As at 31 December 2021	(8)	2	41	(11)

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(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.

	2022		2021	
	US\$ million	Total equivalent to HK\$ million	US\$ million	Total equivalent to HK\$ million
Assets				
Cash	1	5	213	1,660
Debt securities	127	992	130	1,014
Other financial investments	261	2,035	228	1,780
	389	3,032	571	4,454
Liabilities				
Bank loan	60	468	60	466
Unsecured fixed rate notes	1,425	11,117	1,425	11,043
	1,485	11,585	1,485	11,509

Other than concentration of currency risk of the above items denominated in USD (2021: USD), the Group has no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 21 of the Notes to the Consolidated Financial Statements section, to hedge against part of the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

Financial Risk Management continued

For the year ended 31 December 2022

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”) (2021: 500 pips) was applied to the HKD: USD (2021: 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.

	(Decrease) increase in profit or loss		(Decrease) increase in other comprehensive income	
	pips increase HK\$ million	pips decrease HK\$ million	pips increase HK\$ million	pips decrease HK\$ million
As at 31 December 2022				
USD	(55)	55	(3)	3
As at 31 December 2021				
USD	18	(18)	7	(7)

(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

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. If the price of the equity securities had been 5% higher/lower, the other comprehensive expenses for the year ended 31 December 2022 would decrease/increase by HK\$85 million (2021: HK\$74 million) as a result of the changes in fair value of investment as at FVTOCI. The Group’s exposure to price risk on investment in a fund investment was limited because the potential fluctuation was considered minimal.

2. CATEGORIES OF FINANCIAL INSTRUMENTS

	2022 HK\$ million	2021 HK\$ million
Financial assets		
FVTPL	328	308
FVTOCI	1,708	1,473
Derivative instrument under hedge accounting	397	8
Amortized cost (including cash and cash equivalents)	12,465	10,672
	14,898	12,461
Financial liabilities		
Derivative instruments under hedge accounting	514	149
Amortized cost	34,037	28,248
	34,551	28,397

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 2022			
Derivatives under hedge accounting	397	–	397
As at 31 December 2021			
Derivatives under hedge accounting	8	–	8

(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 2022			
Counterparty A	397	(117)	280
As at 31 December 2021			
Counterparty A	8	(8)	–

(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 2022			
Derivatives under hedge accounting	(514)	–	(514)
As at 31 December 2021			
Derivatives under hedge accounting	(149)	–	(149)

Financial Risk Management continued

For the year ended 31 December 2022

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 2022			
Counterparty A	(11)	84	73
Counterparty B	(73)	13	(60)
Counterparty C	(151)	45	(106)
Counterparty D	(179)	161	(18)
Counterparty E	–	92	92
Counterparty F	(100)	2	(98)
	(514)	397	(117)
As at 31 December 2021			
Counterparty A	(22)	8	(14)
Counterparty B	(60)	–	(60)
Counterparty C	(31)	–	(31)
Counterparty D	(27)	–	(27)
Counterparty E	(9)	–	(9)
	(149)	8	(141)

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\$16,737 million (2021: HK\$17,096 million) unsecured fixed rate notes as stated in note 26 of the Notes to the Consolidated Financial Statements section with fair value of HK\$15,097 million (2021: HK\$17,830 million).

The fair value of HK\$9,968 million (2021: HK\$11,453 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\$5,129 million (2021: HK\$6,377 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.

	2022			
	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	–	–	327	327
Financial asset at FVTOCI				
Unlisted investment in equity securities	–	–	1,708	1,708
Derivatives under hedge accounting				
Cross currency swaps	–	382	–	382
Interest rate swaps	–	15	–	15
Total	–	398	2,035	2,433
Financial liabilities				
Derivatives under hedge accounting				
Cross currency swaps	–	117	–	117
Interest rate swaps	–	397	–	397
Total	–	514	–	514
2021				
	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	–	–	307	307
Financial asset at FVTOCI				
Listed investment in equity security	268	–	–	268
Unlisted investment in equity securities	–	–	1,205	1,205
Derivatives under hedge accounting				
Cross currency swaps	–	8	–	8
Total	268	9	1,512	1,789
Financial liability				
Derivatives under hedge accounting				
Cross currency swaps	–	79	–	79
Interest rate swaps	–	70	–	70
Total	–	149	–	149

Financial Risk Management continued

For the year ended 31 December 2022

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 2021	292	297
Addition	20	662
Loss recognized in profit or loss	(5)	–
Profit recognized in other comprehensive income	–	246
As at 31 December 2021	307	1,205
Addition	21	277
Transfer into level 3	–	268
Loss recognized in profit or loss	(1)	–
Loss recognized in other comprehensive expense	–	(42)
As at 31 December 2022	327	1,708

There were no transfers among those three fair value hierarchy levels during the year except for an unlisted investment in equity security. The Group had an equity security listed overseas as at 31 December 2021. The fair value of such investment as at 31 December 2021 was measured based on published price quotation available on the overseas stock exchange. Such equity security has become unlisted upon privatization exercise since 26 January 2022.

The unrealized fair value loss of HK\$1 million (2021: unrealized fair value loss of HK\$5 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 and interest rate 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 the fair value of underlying assets and liabilities as at the end of the reporting period and/or other valuation techniques including market approach, taking into account different multiples such as price per earnings/revenue multiples of comparable listed companies, where relevant. If there is lack of marketability, a discount is applied in determining the fair value. A slight increase in lack of marketability discount would result in a slight decrease in the fair value of the unlisted investment in equity securities, vice versa.

(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 maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

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

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

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

	2022 HK\$ million	2021 HK\$ million
Secured bank loans	7,833	–
Unsecured bank loans	2,707	1,561
Unsecured fixed rate notes	16,737	17,096
Borrowings	27,277	18,657
Less: Time deposits	(5,211)	(1,866)
Cash and cash equivalents	(2,560)	(6,538)
Net debt	19,506	10,253
Total equity	83,411	87,885
Net debt to equity	23.4%	11.7%

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

Five-Year Financial Summary

For the year ended 31 December

	2022 HK\$ million	2021 HK\$ million	2020 HK\$ million	2019 HK\$ million (Note)	2018 HK\$ million
Results					
Turnover	3,460	3,608	3,710	3,988	3,890
Property expenses	(567)	(499)	(490)	(536)	(523)
Gross profit	2,893	3,109	3,220	3,452	3,367
Investment income	248	92	272	154	78
Other gains and losses	(2)	(8)	5	10	(16)
Administrative expenses	(332)	(274)	(268)	(269)	(227)
Finance costs	(423)	(393)	(546)	(313)	(222)
Change in fair value of investment properties	(3,213)	(720)	(4,903)	792	3,532
Share of results of associates	274	458	225	1,733	288
Share of results of joint ventures	(52)	(3)	–	–	–
(Loss) profit before taxation	(607)	2,261	(1,995)	5,559	6,800
Taxation	(342)	(358)	(353)	(473)	(481)
(Loss) profit for the year	(949)	1,903	(2,348)	5,086	6,319
Perpetual capital securities holders	(450)	(459)	(288)	–	–
Other non-controlling interests	242	(61)	89	(241)	(286)
(Loss) profit attributable to owners of the Company	(1,157)	1,383	(2,547)	4,845	6,033
Underlying profit for the year	2,129	2,330	2,398	2,587	2,536
Recurring underlying profit for the year	2,063	2,330	2,398	2,587	2,536
Dividends					
Dividends paid	1,486	1,497	1,502	1,507	1,444
Dividends declared	1,202	1,210	1,216	1,221	1,224
Dividends per share (HK cents)	144	144	144	144	144
(Loss) earnings per share (HK\$), based on:					
(Loss) profit for the year					
– basic	(1.12)	1.33	(2.44)	4.63	5.77
– diluted	(1.12)	1.33	(2.44)	4.63	5.76
Performance indicators					
Net debt to equity	23.4%	11.7%	N/A	3.9%	4.5%
Net interest coverage (after interest capitalization) (times)	13.1x	9.1x	9.8x	17.0x	18.1x
Net interest coverage (before interest capitalization) (times)	3.9x	5.3x	9.8x	17.0x	18.1x
Net asset value per share (HK\$)	68.4	71.4	70.9	74.4	71.1
Net debt (cash) per share (HK\$)	19.0	9.9	(5.7)	3.1	3.4
Year-end share price (HK\$)	25.3	24.1	28.4	30.6	37.3

As at 31 December

	2022 HK\$ million	2021 HK\$ million	2020 HK\$ million	2019 HK\$ million (Note)	2018 HK\$ million
Assets and liabilities					
Investment properties	96,787	95,107	74,993	79,116	77,442
Investments in associates	5,491	5,995	5,577	5,189	3,708
Loans to associates	10	10	11	11	11
Investments in joint ventures	473	475	125	143	145
Loans to joint ventures	3,485	1,256	1,153	1,090	1,062
Other financial investments	2,035	1,780	789	601	294
Time deposits, cash and cash equivalents	7,771	8,404	24,935	9,332	2,817
Other assets	3,113	4,346	2,172	1,561	1,564
Total assets	119,165	117,373	109,755	97,043	87,043
Borrowings	(27,277)	(18,657)	(18,970)	(12,529)	(6,322)
Taxation	(1,203)	(1,091)	(1,031)	(1,341)	(962)
Other liabilities	(7,274)	(9,740)	(2,305)	(2,201)	(2,122)
Total liabilities	(35,754)	(29,488)	(22,306)	(16,071)	(9,406)
Net assets	83,411	87,885	87,449	80,972	77,637
Perpetual capital securities	(10,224)	(10,657)	(10,657)	–	–
Other non-controlling interests	(2,987)	(3,358)	(3,112)	(3,322)	(3,206)
Shareholders' funds	70,200	73,870	73,680	77,650	74,431

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 (after interest capitalization):
"Gross profit less administrative expenses before depreciation" divided by "net interest expenses charged to profit or loss"
- (5) Net Interest Coverage (before interest capitalization):
"Gross profit less administrative expenses before depreciation" divided by "net interest expenses charged to profit or loss plus interest expenses capitalized"
- (6) Net asset value per share:
shareholders' funds divided by number of issued shares as at year end
- (7) Net debt per share:
borrowings less time deposits, cash and cash equivalents divided by number of issued shares at year end

Note:

- a. In 2019, the Group has applied HKFRS 16. Accordingly, certain comparative information for the years ended 31 December 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.

Report of the Valuer

To the Board of Directors

Hysan Development Company Limited

Dear Sirs,

Annual Revaluation of Investment Properties as at 31 December 2022

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 2022 was in the approximate sum of Hong Kong Dollars Ninety-six Billion Seven Hundred and Eighty-seven Million (Hong Kong Dollars 96,787 million).

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

Yours faithfully

Knight Frank Petty Limited

Hong Kong, 16 February 2023

Schedule of Principal Properties

As at 31 December 2022

INVESTMENT PROPERTIES

	Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
Hong Kong					
1. Bamboo Grove	74-86 Kennedy Road Mid-Levels Hong Kong	IL 8624	Residential	Medium term lease	100 %
2. Hysan Place	500 Hennessy Road Causeway Bay Hong Kong	IL 29 sFF ML 365 RP	Commercial	Long lease	100 %
3. Lee Garden One	33 Hysan Avenue Causeway Bay Hong Kong	IL 29 sDD IL 29 sMM IL 29 sL RP IL 457 sL IL 457 RP	Commercial	Long lease	100 %
4. Lee Garden Two	28 Yun Ping Road Causeway Bay Hong Kong	IL 29 sG IL 457 sA IL 457 sO IL 457 sF IL 457 sH IL 457 sC ss1 & RP IL 457 sD ss1 & RP IL 457 sE ss1 & ss2 & RP IL 457 sG ss1 & RP IL 461 sC ss1 & ss2 & ss3 & RP	Commercial	Long lease	65.36 %
5. Lee Garden Three	1 Sunning Road Causeway Bay Hong Kong	IL 29 sJ ss1 RP & ss2 & RP	Commercial	Long lease	100 %

Schedule of Principal Properties continued

As at 31 December 2022

INVESTMENT PROPERTIES continued

	Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
Hong Kong					
6. Lee Garden Five	18 Hysan Avenue Causeway Bay Hong Kong	IL 457 sN IL 29 sLL	Commercial	Long lease	100%
7. Lee Garden Six	111 Leighton Road Causeway Bay Hong Kong	IL 29 sKK	Commercial	Long lease	100%
8. Lee Theatre Plaza	99 Percival Street Causeway Bay Hong Kong	IL 1452 IL 472 RP IL 476 RP	Commercial	Long lease	100%
9. Leighton Centre	77 Leighton Road Causeway Bay Hong Kong	IL 1451 sB IL 1451 sC IL 1451 RP	Commercial	Long lease	100%
10. One Hysan Avenue	1 Hysan Avenue Causeway Bay Hong Kong	IL 29 sGG RP	Commercial	Long lease	100%
11. Inland Lot No 8945	Inland Lot No. 8945 Caroline Hill Road Causeway Bay Hong Kong*	IL 8945	Commercial	Medium term lease	60%
	Address		Use	Category of the Lease	Percentage held by the Group
Mainland China					
1. Lee Gardens Shanghai	Nos 668 & 688 Xinzha Road, Jingan District, Shanghai, the PRC		Commercial	Medium term lease	100%

* The site is currently under development. The development site has a total site area of approximately 159,329 square feet and proposed total gross floor area of approximately 1,076,400 square feet. It is targeted for completion around 2026.

Shareholding Analysis

SHARE CAPITAL

At 31 December 2022

	HK\$	Number of Ordinary Shares
Issued and fully paid-up capital	7,723,225,778	1,027,008,223

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

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2022, 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	2,131	72.458	3,352,783	0.326
5,001 – 50,000	697	23.700	10,875,409	1.059
50,001 – 100,000	61	2.074	4,510,970	0.439
100,001 – 500,000	43	1.462	8,797,456	0.857
500,001 – 1,000,000	3	0.102	1,802,299	0.176
Above 1,000,000	6	0.204	997,669,306	97.143
Total	2,941	100.00	1,027,008,223	100.00

TYPES OF SHAREHOLDERS

(At 31 December 2022, 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	42.174
Other corporate Shareholders	566,730,860	55.183
Individual Shareholders	27,146,628	2.643
Total	1,027,008,223	100.00

LOCATION OF SHAREHOLDERS

(At 31 December 2022, 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	1,024,866,058	99.791
United States and Canada	1,898,751	0.185
United Kingdom	17,085	0.002
Others	226,329	0.022
Total	1,027,008,223	100.00

Note:

The percentages were computed based on the total number of issued shares of the Company as at 31 December 2022 (i.e. 1,027,008,223 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	17 February 2023
Ex-dividend date for second interim dividend	2 March 2023
Closure of register of members and record date for second interim dividend	6 March 2023
Despatch of second interim dividend warrants	(on or about) 20 March 2023
Closure of register of members for Annual General Meeting	11 to 16 May 2023
Annual General Meeting	16 May 2023
2023 interim results to be announced	10 August 2023*

* 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 the Shareholders on the register of members as at Monday, 6 March 2023.

The register of members will be closed on Monday, 6 March 2023, 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 Friday, 3 March 2023.

Dividend warrants will be despatched to the Shareholders on or about Monday, 20 March 2023.

The register of members will also be closed from Thursday, 11 May 2023 to Tuesday, 16 May 2023, both dates inclusive, for the purpose of determining Shareholders' entitlement to attend and vote at the AGM to be held on Tuesday, 16 May 2023 ("2023 AGM"), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2023 AGM, 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 Wednesday, 10 May 2023.

SHAREHOLDER SERVICES

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

Tricor Standard Limited
17/F, Far East Finance Centre
16 Harcourt Road
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 of the Company (the "Annual Report") (English and Chinese versions) is available on our website at www.hysan.com.hk and the Stock Exchange's website at www.hkexnews.hk. Shareholders may at any time choose to receive the Annual Report in printed form in either 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, the Company will promptly upon request send to you in printed form free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report or other corporate communications of the Company by notice in writing to the Company or the 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

(During the year and up to the date of this report)

BOARD OF DIRECTORS

Lee Irene Yun-Lien (*Chairman*)
Lui Kon Wai (*Executive Director and Chief Operating Officer*)
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Poon Chung Yin Joseph**
Wong Ching Ying Belinda**
Young Elaine Carole**
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**
Young Elaine Carole**

COMPANY SECRETARY

Hao Shu Yan

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 Stock Exchange. It has a sponsored American Depositary Receipts ("ADR") Programme in the New York market.

STOCK CODE

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

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants and
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong