恒隆地產
HANG LUNG PROPERTIES

2019 Annual Report

Hang Lung Properties Limited

STOCK CODE: 00101


恒隆集團
HANG LUNG GROUP
2019 Annual Report
Hang Lung Group Limited
STOCK CODE: 00010
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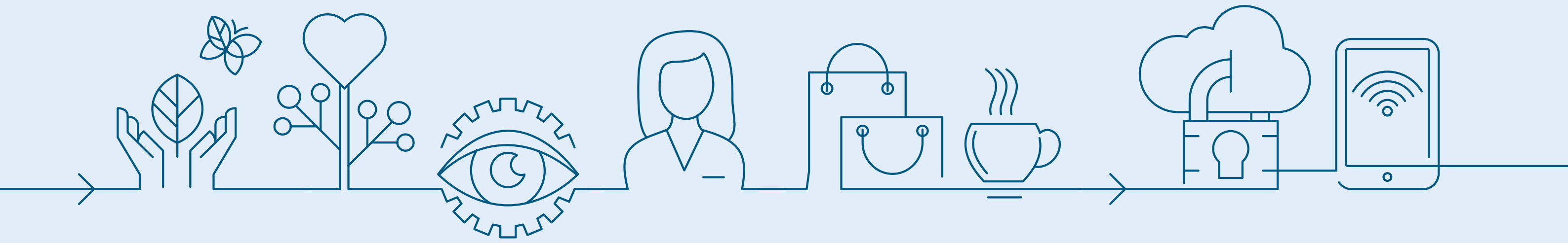


The annual reports of Hang Lung Properties Limited (Stock Code: 00101) and Hang Lung Group Limited (Stock Code: 00010) for the 2019 financial year both embody the Group's Five Overarching Strategies that are integral in driving sustainable business development: Be Customer Centric, Build Hang Lung Branded Experience, Embrace Technology, Disciplined Execution and Uphold Hang Lung Core Values.

The cover images of both reports feature a twinning effect that showcases our two major projects for 2019 – the newly opened Spring City 66 in Kunming, and Peak Galleria in Hong Kong, which was reopened following the completion of its Asset Enhancement Initiative. These are projects that underline the Group's development strategy, both in mainland China and Hong Kong, and the cover designs highlight the symbiotic relationship between beautiful, unique architecture and the people who use it. World-class properties such as these, designed, built and managed by Hang Lung, show our Five Strategies in action, and enable the Group to fulfil and exceed customers' expectations. The reports are exquisitely designed, and detail Hang Lung's concerted effort to strive for excellence and create value for shareholders and stakeholders.

CORPORATE PROFILE

Hang Lung Properties Limited (stock code: 00101) is the property arm of Hang Lung Group Limited (stock code: 00010), which, in 2020, is celebrating the 60th anniversary of its founding.

We are a top-tier property developer in Hong Kong and on the Mainland with a diversified portfolio of properties spanning Hong Kong and nine cities on the Mainland including Shanghai, Shenyang, Jinan, Wuxi, Tianjin, Dalian, Kunming, Wuhan, and Hangzhou, with all the Mainland projects carrying the "66" brand.

Our vision is to develop into a highly admired national commercial property developer, expanding our footprint on the Mainland while continuing to invest in our home base in Hong Kong. We strive to acquire the best sites in the cities with growth potential and employ only the top architectural firms to achieve the highest design quality and develop the best properties.

HANG LUNG GROUP 60th ANNIVERSARY

Guided by our Five Overarching Strategies, we put customer-centricity at the heart of our operations. By embracing the advantages of advancing technology, and with disciplined execution, we are taking the customer experience of the Hang Lung brand to a new level. Exemplary corporate governance remains the cornerstone of our beliefs. We make sure integrity and an ethical approach are deeply ingrained in our corporate culture – not only at the very highest levels, but also throughout our day-to-day operations.

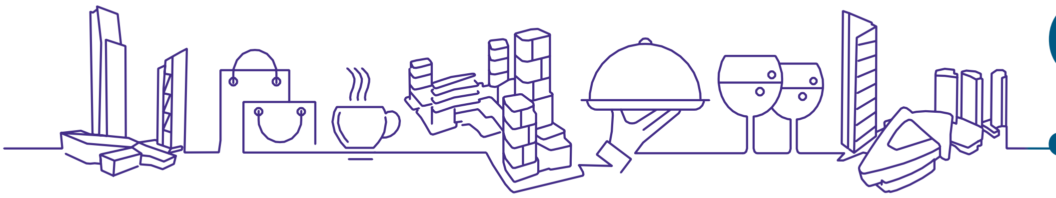
Building on the solid foundation of our parent company, we will continue to work closely with our shareholders and stakeholders in building a sustainable future for our Company and for every community we serve.

Contents

Achieving Sustainable Growth through

Our Overa Strat

Be Customer Centric



Build Hang Lung Branded Experience

Five
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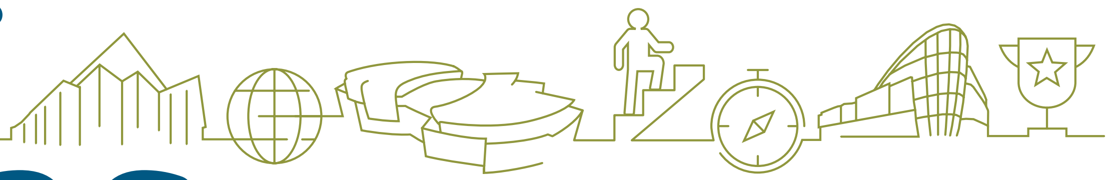
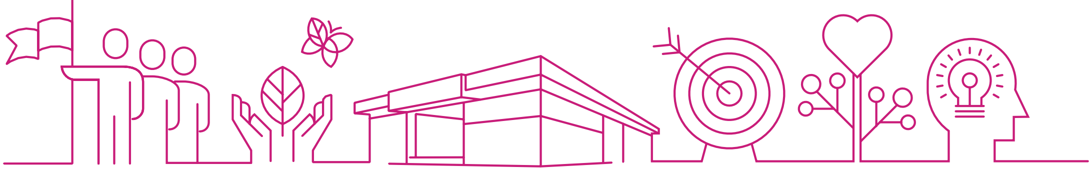
Embrace Technology



Disciplined Execution



Uphold Hang Lung Core Values

FINANCIAL HIGHLIGHTS

Results

For the year ended December 31

in HK$ Million (unless otherwise stated)	2019	2018
Revenue		
Property leasing	8,556	8,181
Mainland China	4,544	4,244
Hong Kong	4,012	3,937
Property sales	296	1,227
Total revenue	8,852	9,408
Net profit attributable to shareholders	6,172	8,078
Property leasing	6,036	7,346
Property sales	136	732
Dividends	3,418	3,374
Shareholders' equity	138,669	137,561
Per share data		
Earnings	$1.37	$1.80
Dividends		
Total	$0.76	$0.75
Interim	$0.17	$0.17
Final	$0.59	$0.58
Net assets attributable to shareholders	$30.8	$30.6
Financial ratio		
Payout ratio		
Total	55%	42%
Property leasing	57%	46%
Net debt to equity ratio	17.8%	10.4%
Debt to equity ratio	20.1%	19.0%

Underlying Results

For the year ended December 31

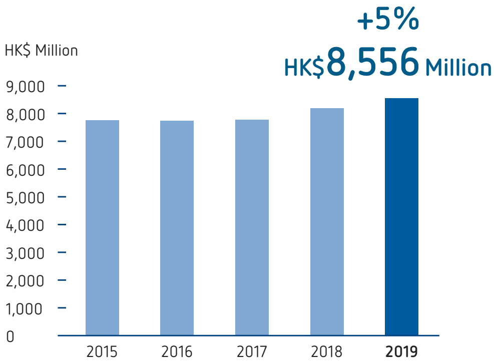
in HK$ Million (unless otherwise stated)	2019	2018
Underlying net profit attributable to shareholders	4,474	4,093
Property leasing	4,338	3,361
Property sales	136	732
Earnings per share (Note 1)	$0.99	$0.91
Payout ratio (Note 1)		
Total	76%	82%
Property leasing	79%	100%

Note:

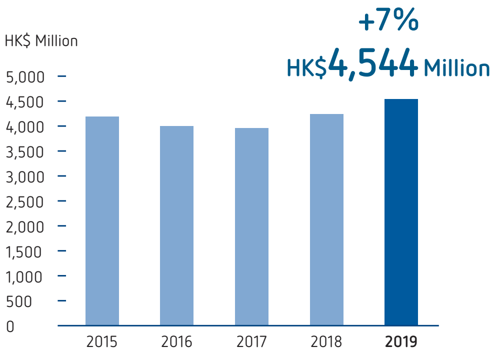
1. The relevant calculations are based on the underlying net profit attributable to shareholders.

Property Leasing Revenue

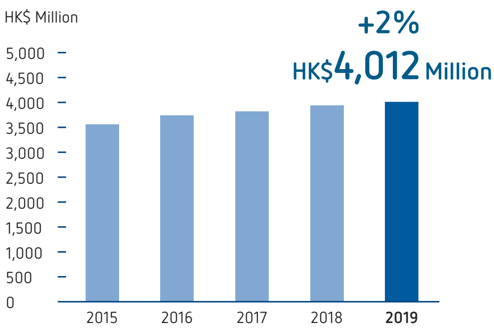
Overall



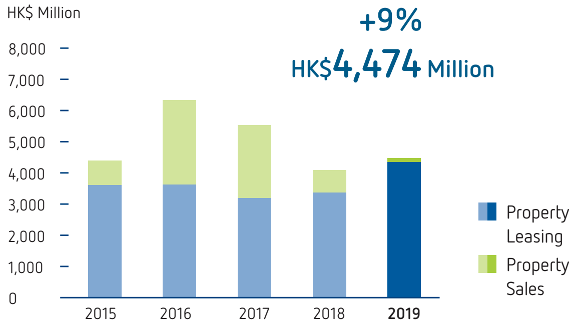
Mainland China



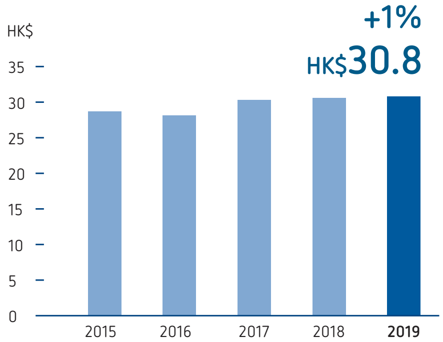
Hong Kong



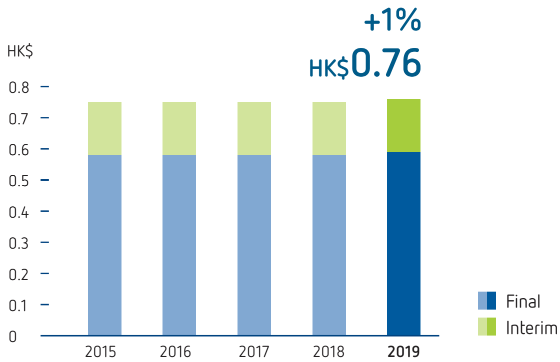
Underlying Net Profit



Net Assets Attributable to Shareholders per Share

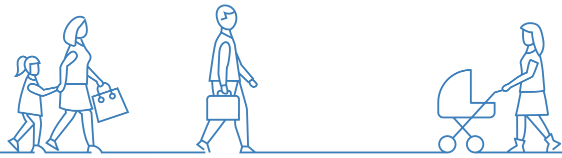


Dividends per Share



2019 HIGHLIGHTS

Major Property Developments



Peak Galleria

The mall reopened in August 2019 following the completion of a two-year Asset Enhancement Initiative

Spring City 66, Kunming

The mall and office tower of the project opened for business in August 2019

Center 66, Wuxi

Office Tower 2 opened for business in August 2019

Forum 66, Shenyang

Conrad Shenyang, Hang Lung Properties' first hotel project, opened for business in September 2019

Westlake 66, Hangzhou

A ground-breaking ceremony was held in September 2019, marking the commencement of the construction of Hang Lung's 11th large-scale commercial project on the Mainland

Customer Service and Experience

Plaza 66, Shanghai

The star-studded Home to Luxury Party was held in November 2019, attracting close to 3,000 guests and members of its prestigious customer relationship program, HOUSE 66, and achieving record high daily retail sales

Forum 66, Shenyang

A luxurious Luminous Winter Party was held in December 2019 to celebrate the mall's anniversary, drawing over 1,000 business partners, government officials, tenants, and customers

Hang Lung Style Lab, Dining Together and YAO Music Festival

The launch of three cross-portfolio promotional events resulted in a significant increase in retail sales

Riverside 66, Tianjin

Now the location of the Starbucks Reserve Riverside 66 Tianjin flagship store, where we restored, preserved and integrated most of the original interior architectural features of the historical landmark, Zhejiang Xingye Bank Building, and blended them with a modern customer experience

Recognizing Our Employees

Hang Lung CEO Award

A newly launched award scheme to recognize outstanding projects that demonstrate the four attributes of Hang Lung corporate culture while promoting teamwork and cross-team collaboration at the same time

Hang Lung Emerald Award 2019

An annual award, in its 5th year, promoting customer-centricity and a "Go the Extra Mile" spirit by recognizing outstanding customer services offered by our frontline staff

Community Partnership

Hang Lung As One Volunteer Team

104 volunteer activities were organized, devoting over 13,500 volunteer hours to causes in Hong Kong and mainland China

Hang Lung Young Architects Program 2019–2020

A new cohort of 330 students from 66 secondary schools was recruited to take part in the journey to become young architects over the course of the academic year

Awards and Recognition

Hang Seng Corporate Sustainability Index Series Member 2019-2020

Hang Seng Corporate Sustainability Index

We were listed as a constituent of the HSCSI and Hang Seng (Mainland and Hong Kong) Corporate Sustainability Index with an AA rating for the 10th consecutive year

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

Dow Jones Sustainability Indices

We were included as a member of the Dow Jones Sustainability Indices (DJSI) Asia Pacific Index for the 3rd consecutive year

GRESB 2019

Global Real Estate Sustainability Benchmark (GRESB)

A 3-star performance rating and an A-grade disclosure rating under the Global Real Estate Sustainability Benchmark was received

HR Asia Award (China Edition) – Best Companies to Work for in Asia 2019

An award presented by the authoritative human resources magazine *HR Asia* to companies with high levels of employee engagement and excellent workplace cultures

Best Investor Relations Company (Large Cap) Award

The 5th IR Awards, presented by the Hong Kong Investor Relations Association

Platinum Award – The Asset ESG Corporate Awards 2019

An award scheme organized by *The Assets* that recognized excellence in corporate governance, corporate social responsibility and investor relations among the region's listed companies


candylicious

BE CUSTOMER CENTRIC

Plaza 66, Shanghai

Grand Gateway 66, Shanghai

CHAIRMAN'S LETTER TO SHAREHOLDERS

Ronnie C. Chan
Chairman

Results and Dividend

For the year ended December 31, 2019, revenue decreased 6% to HK$8,852 million because we almost did not sell any Hong Kong residential units. Net profit attributable to shareholders declined 24% to HK$6,172 million. Earnings per share fell similarly to HK$1.37.

When excluding the effects of property revaluation gain, the underlying net profit attributable to shareholders rose 9% to HK$4,474 million. Correspondingly, the underlying earnings per share increased to HK$0.99.

The Board recommends a final dividend of HK59 cents per share payable on May 20, 2020 to shareholders of record on May 7, 2020. If approved by shareholders, total dividends per share for the year ended December 31, 2019 will be HK76 cents.

The one-cent increase in per share dividend bears some explanation. At year-end 2015, the Board saw it appropriate to send a clear signal to our shareholders that our market has been terribly weak and would likely remain so. The one-cent drop was altogether immaterial to our cash flow.

In fact, we began to feel a chill in the market as early as mid-2011. By late 2012, those who were perceptive knew that Winter was quietly arriving, and by 2013, the downturn became clear to all. In 2014 and 2015, the slowdown was so severe that no one was expecting a prompt recovery. No one knew when Spring would return, and neither did we. It was at that juncture that your Board felt the need to send a message to the market. We believed that it was the only responsible thing to do. It took another two years before recovery came.

Events subsequent to our deliberate dividend cut showed the disparity of views between investors and management. The latter is primarily concerned with the long-term health of the Company and acts responsibly towards all stakeholders, particularly our shareholders. Understandably, most investors on the other hand are predominantly occupied by short-term – and in some cases, very short-term – considerations, namely the return on investment which comprises share price performance and dividend.

It was amazing how the one-cent decrease annoyed so many shareholders. Perhaps it hurt them psychologically, since for at least 30 years prior, we only lowered the dividend twice, in 1988 and 1999, both times during serious regional or global financial and economic turmoil. Investors and analysts understood our rationale as well as its immateriality from a cash flow perspective, but they just did not like it. A good many of them told me so in my face. One often heard phrase was, "When will you give me back the one cent?!" We heeded them and are happy to oblige when we deem the timing auspicious.

Your Board believes that the time has come. The long bear market ended in late 2017 or early 2018. On the second anniversary of the recovery, we are quite confident of our near- to medium-term future. We fully recognize the uncertainties in our two markets – the social unrest in Hong Kong and the U.S.-China trade war involving the Mainland. Later in this letter, I will share my views on the former, just as in the last interim report where I presented my thoughts on the latter. Also six months ago, in my letter to the shareholders of our parent Hang Lung Group Limited (HLG), I wrote about the implications of a broader conflict between China and the U.S.

The conclusion was that consumer spending in mainland China, and luxury retail in particular, should continue to do well. In fact, the dispute between the world's two biggest economies may in fact help our business somewhat. Moreover, rent increases in our Mainland portfolio are expected to be strong such that it will more than compensate for any possible fall in Hong Kong rental.

Since Summer has arrived for our Mainland business, your Board believes that this is the time to raise the dividend. Nevertheless, we must balance any payout with future outlays. In the coming several years, our annual capital expenditure will not be inconsequential. We are very much in a growth phase as I reported before – we will have completed almost 380,000 square meters of mainly world-class commercial space each year for the seven years between 2019 and 2025. I challenge my readers to find another real estate concern in the world today which has this amount in its pipeline. There will be very few, if any. Consequently, prudence dictates that we should not be careless in spending our cash.

As to the longer-term dividend payout, our policy has always been to pay more as we make more, subject to the bounds of financial prudence. As much as possible, we have a tendency not to cut; rather, we prefer to see a stream of steady or rising dividend in absolute dollar terms.

Business Review

As the operating entity to our parent company HLG, I wrote six months ago at considerable length about the market factors and business model factors which made our business so attractive. Some of the points were explained in detail in previous years and I refer readers thereto. As is my practice, I usually devote this letter to strategic as well as operational issues that impact our business more directly. Because much of our future is in mainland China, I address economic and other developments relating thereto which may affect us. For the piece to HLG shareholders, I tend to step back a little and look at the broader global affairs that may have an effect on our enterprise. I may even at times wander ever so slightly into their philosophical underpinnings. Purely Hong Kong-related issues are also for the most part put there.

As my regular readers know, I take the two semi-annual letters most seriously. I see it as my duty to communicate to our shareholders (and potential shareholders) regularly, and at some length, the critical external events that may affect us. This is of course in addition to the basic company information that a chairman should report. Nevertheless, the nature of this platform is private, in the sense that it is only meant for a certain audience who is interested in our firm. Yet much of the world today has changed because of the Internet. As a Mainland Chinese shareholder recently said to me, few "private letters" are as widely read as mine. In fact, my two semi-annual reports have spread well beyond the investment community, particularly in mainland China. This is fine, for it will not change in the slightest my approach to crafting them.

Management has turned in another set of satisfactory results. This is set against an environment that is most troubling. China-U.S. relations are still on ice, the recent preliminary resolution in the trade dispute notwithstanding. Hong Kong's social unrest might have subsided on the surface, but a half-way acceptable solution is still nowhere to be found.

Consequently, like all other owners of Hong Kong commercial real estate, our rental revenue is somewhat affected. Thanks to the growth in the first half of 2019, we were able to eke out a 2% year-on-year rental growth for the 12 months. Fortunately, our Mainland business has risen strongly, which more than compensated for the market weakness at home. In local currency terms, we collected 12% more rents outside of Hong Kong – 8% for Shanghai and 19% elsewhere. Excluding the newly inaugurated properties, the Mainland portfolio grew 10%.

Plaza 66,
Shanghai

While our Mainland offices have only gently advanced, our shopping centers have commanded much higher rents. In Shanghai, Plaza 66 rose 14% and Grand Gateway 66, in spite of an ongoing Asset Enhancement Initiative (AEI) where the main building was only partially open, advanced by 6%. Not counting the newly inaugurated Spring City 66 in Kunming, four out of six malls outside Shanghai saw double-digit growth, with three gaining 20% or more – 20% for Palace 66 in Shenyang, 22% for Center 66 in Wuxi, and 28% for Olympia 66 in Dalian. The number for Parc 66 in Jinan stood at 10%. Even the two weaker properties of Forum 66 in Shenyang and Riverside 66 in Tianjin rose respectively 3% and 4%. In other words, every mall experienced rental increase.

The numbers for leasing operating profit were dramatic. Those for Hong Kong and Shanghai only advanced slightly because our facilities there were rather mature. But elsewhere on the Mainland, the improvement was staggering. This is a very good sign – it means that our operating efficiency was greatly enhanced, i.e. cost has stabilized or has fallen while top line has continued to grow at rates which are in themselves not inconsequential. Best of all, I expect more to come.

Consider this set of results: the worst performer (Riverside 66) advanced by a very respectable 13%. The next best, Parc 66, accelerated by 21%. The rest are in the stratosphere. In ascending order, they were Palace 66 at 56%, Center 66 at 59%, Forum 66 at 68%, and Olympia 66, with a whopping 81%.

These figures are not commensurate with the rise in revenue. They are characteristic of our business which I had previously described; namely, a few years after opening, cost increase will slow down if not flatten out while rent will continue to climb. This jaw, once opened, will only widen over time such that more and more of the top line will drop straight to the bottom. We had been expecting this but the bear market of 2012-2017 has delayed its arrival. Once Spring returned in early 2018, we knew that our mall business would soon return to the trend line, and in the second year of the recovery, it happened. Rental margin everywhere has improved.

Grand Gateway 66, Shanghai

In a mature market like Hong Kong, where our investment properties are older, rental margin has for years stayed at around 84% to 85%. The two malls in Shanghai are close to 20 years old and the numbers have always lingered around 90%. Even Grand Gateway 66, which is undergoing AEI, still achieved 85%. In time, it will return to Plaza 66 levels.

Outside Shanghai, three malls have risen to 45% or above: Palace 66 and Center 66, both at 45%, and Parc 66 at 56%. All other properties witnessed improvements, especially Olympia 66 whose Phase 2, accounting for some 13% of total space, was not open until recently. We gradually brought them to the market, resulting in higher occupancy which greatly lifted rental margin. In all our developments, I expect the favorable trend to continue. The same is true for the occupancy rate and average unit rent.

Another way to see how strong the Mainland market is and our performance therein, is to look at the sequential growth in rental revenue. Let us examine four sets of year-on-year numbers: full year 2019 compared to that of 2018, the first half of 2019 to the first half of 2018, the second half of 2019 to the second half of 2018, and finally, the second half of 2019 to the first half of the same year. Whether in Shanghai or outside, all figures are in the positive territory. In fact, all four numbers for properties outside Shanghai achieved double-digit growth. They were respectively 19%, 14%, 24%, and 16%. For Shanghai, they were 8%, 4%, 12%, and 9%. The overall increases for all Mainland projects were respectively 12%, 7%, 16%, and 11%.

Key to our continued success is of course retail sales. Only when our tenants do more business can we expect higher rents from them. Here again, the numbers are quite encouraging. Excluding Grand Gateway 66, which is currently undergoing AEI, and the newly opened Spring City 66 in Kunming, our tenants everywhere else have done more business in 2019 than the year before. In four places, the rise was over 20% – Palace 66 achieved 20% more sales, Plaza 66 and Center 66 both came in at 21%, and Olympia 66, 29%.

An interesting observation on retail sales is that Plaza 66 in Shanghai is already within 10% of the total sales of all our Hong Kong retail tenants put together. Once Grand Gateway 66 is fully operational after the AEI and all the top fashion brands have moved in, its tenant sales will likely soon approach our Hong Kong number. Even more promising is that putting together all the Mainland malls outside Shanghai, the sales figure is already over 80% that of our home market.

Because the respective competitive landscape and purchasing power are different, unit rent varies greatly from city to city. This is why Hong Kong is far higher than all Mainland cities. Even if the former does not fall in the coming few years, an assumption which is questionable (a point to which I will return in the next section), it is almost inevitable that the gap will continue to narrow. This bodes well for our business, for we have been aggressively expanding on the Mainland.

Look at it in another way: what would have happened if we had not entered the Mainland market in the past? Over the years, we were cautious to not sell down too much of our Hong Kong investment portfolio for fear of uncertainties on the Mainland. However, recent local turmoil has shown that our home market can also be not that trustworthy. What is certain is that by being in both places, i.e. taking a diversified portfolio approach, we will not get caught in the most undesirable scenario, namely all eggs in one basket whose bottom has fallen out.

This year's financial account is particularly cumbersome. Several elements, some old and others new, can easily cloud the true picture of our performance. Only very careful analysts can adequately dissect it. Management has done its best to make it easier to understand, and we encourage all our readers to study this report. Here I will call your attention to a few key elements.

For almost two decades, we have focused on building up our Mainland commercial properties for long-term rental. As such, our present and future performance should primarily be measured by this part of the business. And since almost half of our rental revenue still comes from Hong Kong, how we fare in this regard is also significant for the near term. The rest, like property sales, should be considered as supplemental. It should be stripped out to see our underlying performance. Our main business is the main business.

Whereas smart professional analysts have long evaluated us this way, local newspaper reporting is another matter. Since property sales is to us secondary and is sporadic, lumping its results with our steady rental income will only cloud the picture. But because most of our fellow Hong Kong real estate companies rely primarily on property sales, this is how the media sees us. Over the decades, we have transformed from that model to an investment-led concern. Because periodically we still have some property sales activities, the press became confused. We understand the futility of expecting local journalists to grasp such nuances. Nevertheless, Management will do our best to make this clear to our readers when preparing externally oriented publications like this report.

Another longstanding issue is currency translation. It too can seriously distort a proper assessment of the state of our operations. With the Hong Kong Dollar being the home currency for reporting purposes, any RMB appreciation will overstate our profit, and any RMB depreciation, like in the past few years, will have the opposite effect. As such, the sensible way to assess our business is to view the results in its local currency, namely, to evaluate our Mainland rental operations in RMB terms. As we now receive over half of our rental revenue in that currency, your Board has long considered the possibility of reporting the company results in RMB. Nevertheless, so far we are not convinced that we should make such a change.

Somewhat new to this year's reporting are two issues. First is the change in accounting standards (HKAS 23). It started a year ago and is again explained elsewhere in this report. Simply put, further capitalization of interest payments has lowered the current interest expenses which boost net profit.

The second relates to the semi-annual revaluation of our investment assets. As many analysts who cover our Company know, for many years the cap rates used to value our properties were on the high side compared to our peers. This is especially true, considering the superior quality, and commensurate revenue-generating ability of our Mainland developments. This view has been repeatedly confirmed by the actual sales transactions of inferior buildings in our neighborhoods at much lower cap rates.

Our external valuer has thus decided to, across-the-board, lower the cap rates of our Mainland properties. This is especially true for the two Shanghai complexes which have performed superbly after their recent AEI. (Although Grand Gateway 66 is still undergoing upgrading refurbishment, the possibility of it following the good example of Plaza 66 seems compelling.)

To give a value or a single number as the worth of a complicated investment asset is as much an art as it is a science. Many subjective determinations are inevitably involved, although the methodology must be, and in our case is, rigorous and consistent. For example, the valuer's expectation of our future income stream is part of the equation. He or she may take into account the present U.S.-China trade war and its effects on rental growth. How about market factors, such as the oversupply in the asset class under consideration? How much competition is required to begin affecting our rent-bargaining ability? And by how much? These illustrate how subjective the resulting number is. Short of comparable sales activities, any valuation is nothing more than a guesstimate. And even with neighboring actual sales, how does one assess the difference in quality among buildings?

A case in point is the two investment properties that we and our parent company HLG respectively sold early last year. The realized prices were two to three times the book value, which by definition was less than six months old. (We revaluate the entire portfolio every six months.) A similar situation existed for all our rental properties sold in the past decade.

As such, the semi-annual valuation should be taken only as an indication. To predict the future is a fool's game, although at times necessary, like in our business. I understand and agree with the concept of reflecting a truer value of hard assets in the accounts, but anyone looking at such numbers must recognize the limitations of the methodology and of the valuer. For none of us is omniscient. Too many factors contribute to one final number, and many of those factors do not and cannot have a precise answer.

Spring City 66 in Kunming was inaugurated in late August 2019 so there is nothing to compare. Suffice to say that its initial performance is quite encouraging. Over 90% of the space has been leased or has rental contracts being finalized, and many of the world's most valued fashion brands are already committed. Some of them are still undergoing interior decoration and will only start to do business in the second quarter this year. The official mall opening ceremony will thus take place around the end of May. The mall will be indisputably the Home to Luxury for Kunming, the country's number one gateway to Southeast and South Asia. It is also interesting to note that one-third of the brands are debuts to the city if not to the country.

Spring City 66, Kunming

All our offices are performing steadily but not spectacularly. Relatively speaking, the skyscraper at Forum 66 in Shenyang performed the best in terms of improvement in operating profit. The second tower of Center 66 in Wuxi opened last August and is leasing satisfactorily.

Conrad Shenyang at Forum 66 commenced business on September 1, 2019. It already commands the highest room rate in the city and is fast becoming an attraction for the wealthy in Shenyang and its neighboring cities. And there are many such people!

Construction works in all of our Mainland developments are proceeding as planned. This includes our latest project, Westlake 66 in Hangzhou, where we eventually broke ground in September 2019. We were delayed by government procedures by five months. All preliminary construction works have commenced and we hope to catch up as much as possible. Kohn Pedersen Fox Associates based in New York City has been appointed as the design architect. We have worked with them before on many projects.

Due to the social unrest in Hong Kong, our economy has been seriously hurt. It will take some time to recover, and even after that, the level that can be achieved in some industries may be below that of the pre-trouble days.

In the next section, I will attempt to discuss Hong Kong's possible longer-term future. Suffice to say here that what has happened in the past seven months was nothing less than insanity. The violence was more atrocious than what took place in the major riots of the world in the past few decades. I refer to London, Paris, Barcelona, New York City, and the like. What foolishness! But liberal politics is often irrational. For an ideology, a religion, or a political system, some people would hawk their money or their future for very little. Yes, street violence hurts businesses but the pain is manageable for bigger enterprises like us. But for the tempestuous young people, their future may be ruined for life. The adults behind the scenes who instigate violence will have to bear a good part of the responsibility.

Forum 66, Shenyang

For now, retail was the first to get hit. When shops and malls have to close to avoid destruction by the mob, everyone suffers. Mainland visitors who have been the key to our decade-long prosperity stopped coming. As landlords, we have to strike a balance between the sanctity of legal contracts and business relationships. Consequently, in the past three months, we had to give some rent relief on a case-by-case basis. Fortunately, most of our retail space is tailored to local people, and as such, they are less affected though few can be totally immune.

The Hong Kong office market has also felt the effect. Prices at lease renewal have become softer.

In the first half of 2019, Hong Kong rental grew by slightly over 3%. Street troubles began in June and our rents collected for the last six months were flat. Consequently, we were up 2% for the full year.

Under such circumstances, selling luxury dwellings like those on Blue Pool Road became difficult. This was why we were only able to sell one house. Unit price realized was comparable to those achieved the year before when we parted with three.

We sold some mature investment properties before the violence began. Our hope was to sell more but the market turned very quiet.

Our two Hong Kong development projects progressed as planned. We were successful in consolidating ownership last April at the former Amoycan Industrial Centre in Ngau Tau Kok. Demolition is proceeding and it will be redeveloped into residential units with a small commercial podium below. Total gross floor area will be slightly over 16,000 square meters. We hope to pre-sell in 2021 for 2023 completion.

Demolition work is completed at the Electric Road redevelopment project in North Point. We will construct one office block just shy of 10,000 square meters. Completion is expected in 2022.

For the calendar year just ended, RMB depreciated 4.3% against the Hong Kong Dollar. As a result, our reported income from the Mainland was that much lower in our home currency.

While our underlying business has performed strongly on the Mainland, for two reasons Net Profit Attributable to Shareholders was down 24%. First, we sold a lot less development properties in Hong Kong. Second, revaluation gain attributable to shareholders was not as high as in 2018. Taking out the second factor, net profit was up 9%. Ignoring as well the first factor for the moment, our overall property leasing business jumped 29% in its bottom line. This is rather pleasing.

Prospects

The near-term prospects, say for the next two years, may differ greatly between our two markets – mainland China and Hong Kong. While the local social turmoil will likely have a lasting effect on retail and related businesses, as I will elaborate later, our Mainland operations should continue to thrive. Inasmuch as we do not like to see our home market suffer, the dynamics of our portfolio will render its effects on our overall profitability somewhat insignificant.

Let me paint a somewhat harsh scenario where Hong Kong rents would fall by 5% per annum for the next two years. This would translate to a drop in annual company-wide rental revenue of about 2.3%. To counter this, it would take an additional increase of 4.4% in our Mainland portfolio to fully make up the loss. It is however quite possible that in this period, our Mainland portfolio would annually raise its rents by well over 10%, perhaps in the high teen numbers. (Last year it was 12%.) This would still leave us with a reasonable growth in overall rental revenue.

The fact of the matter is: our reliance on Hong Kong has diminished considerably over the past decade. Our organic growth rate north of the boundary is so much faster, and we have so many new properties soon to be completed and become income-producing. The significance of our Hong Kong business can only lessen further over time.

In the past seven months, we have seen severe violence on our streets. For our city, one has to go back to the riots in 1967 to find something remotely like what we see today. I was here back then, just about to enter university. At that time, the turmoil was more contained; this time it was much more pervasive. The police then was merciless and crushed the rioters quickly. This time the police was most restrained, so those on the streets were greatly emboldened. How could a young man pour gasoline onto a stranger and then set him on fire! There were other similar atrocities. Equally serious was the fact that many otherwise sensible citizens would condone such senseless crimes.

For now, hopefully we have seen the worst on the streets. The effects of the turmoil on our bottom line are so far manageable. But what about this year and the next if violence resumes?

These days, a question commonly asked by investors is: how long will the Hong Kong economy be down? The correct answer is, of course, that no one knows. Nevertheless, as executives we are often forced to make assumptions that form the basis upon which business plans are crafted. That said, it is possible that the external environment may be so confusing that no reasonable estimation can be made. To me, now is one of those times. One can only compare it to certain somewhat similar historic events which will hopefully shed some light.

Six months ago, I reminded my readers how bad it was at the time of the Asian Financial Crisis which began on July 2, 1997. Our Hong Kong rents went down and it took us almost 11 years, until 2008, to return to the pre-crisis levels. Will it be as bad this time? I do not know and do not want to guess. However, several observations can be made which may provide some perspective.

During the Asian Financial Crisis of 1997 to 2002, the problem was primarily one of economics, although it was exacerbated by political uncertainties surrounding Hong Kong's then recent return to her Motherland. In August 1998, 13 to 14 months after the financial crisis broke, a herd of six international financiers – three investment banks and three hedge funds, all of whom were personally known to me – thought that they could take advantage of the Hong Kong-U.S. dollar peg. By breaking it, they would make a windfall, knowing well that the process would destroy our economy along with the livelihoods of many citizens.

Their entry point was the stock market which was much smaller than the currency pool and therefore more maneuverable. By breaking the stock market during the severe regional financial crisis, it would create social horrors that would likely snap the currency peg. Having already shorted the Hong Kong Dollar, they would stand to reap huge profits. Fortunate for our city, the then Chief Executive (CE) Mr. Tung Chee-Hwa with the support of Beijing took resolute actions to fight the attackers and won. If not, our economy would have been thrown into utter confusion which would have taken perhaps a decade to recover from.

Although what the attackers did might not have been illegal, it was definitely morally indefensible. They would not blink an eye for destroying the livelihoods of innocent people just for selfish monetary gains. Such an act was immoral, and those engaging in it must also be immoral, for they concocted and executed the scheme. Because Hong Kong's financial system was healthy and strong, and we happened to have good leadership, the city was spared. Thailand and Indonesia were not as fortunate. As one who has lived through that period, I witnessed the trauma experienced not only by those economies in general but specifically by their myriads of citizens, especially the poor. For many, their whole lives were destroyed; others struggled for many years just to get back on their feet. It was capitalism at its worst.

In the year of the attack (1998), Hong Kong's economy contracted by almost 6%. It took almost three years for its GDP to return to 1997 levels. With the exception of the inevitable rebound which came in 2000, the economy grew very slowly until 2004. We had five lethargic years – 1998, 1999, 2001, 2002, and 2003. GDP growth of those five years was a meagre 0.4% per annum.

Even though Hang Lung was financially strong then as it is now, it still took a decade for our Hong Kong rental to return to its pre-crisis levels. Fortunately our then new-found revenue from Shanghai soon kicked in (in 2000) which helped blunt the fall. Many other companies were not as lucky as we were. Multiply this sad story thousands of times over, and one can understand why it took Hong Kong's overall economy so long to get back on its feet.

The recession then was externally instigated, but this time it is altogether self-inflicted. Twenty-some years ago it was primarily a financial problem; now we are confronting a political crisis which is dragging our economy down. Recovery may take time, but pure economic problems usually have a solution. The present situation, being political in nature, may take longer to resolve. In fact it is a conundrum – no one, probably including Beijing, has any idea how to resolve it. Few can agree on the causes, let alone the solutions. From day one I had publicly stated that this problem cannot be solved without Beijing's involvement. But their solution, if there is one, might help the situation or hurt it. Good intentions do not always translate into desirable outcomes. We will have to see.

Such is the political beast where reactions to an action are often far more difficult to foresee than those in the economic sphere. Politics and economics are both social sciences, but the driver or the currency in economics is a lot simpler. While money is not the only measure of an economy, it is definitely the dominant one. On the other hand, motivations in politics are far more complicated and are often unspoken or unspeakable. That said, politics can also surprise us in the opposite direction. Sometimes intransigent knots can suddenly be untied, but I will not count on it this time.

Leaving aside the political roots of the present trouble, one can easily make certain economic observations and come up with reasonable predictions. An obvious one is that retail and its related businesses such as restaurants, hotels, and certain services like amusement parks, beauty parlors, medical clinics, etc. will be the first to suffer. Some of these will affect our operations.

Last year I befriended a relatively wealthy couple in Hainan Island. They used to spend a weekend in Hong Kong each month. Staying at five-star hotels, they sampled different cuisines and took their young son to Hong Kong Disneyland or Ocean Park (another amusement outfit); she went shopping while he surfed on the Internet and paid her bills. The entire family every so often visits a drug store for medicine, a doctor's office for vaccinations, and, as needed, sees a dentist. They are familiar with our streets and probably know more local eateries than I do. Upon hearing about their monthly excursions, I, as a Hong Kong citizen, thanked them. Whether or not they shop at our malls or frequent our tenants' restaurants is secondary. They are holding up our economy.

No wonder the past 15 to 20 years were a golden era for Hong Kong retailers. Without outside help, our organic growth would simply be too slow. Our natural population increase was among the lowest in the developed world. Wholesale wealth creation seemed a thing of the past; our citizens are not keen to find or develop new industries. As a result, a domestically generated rise in retail can only be lackluster.

The primary reason for strong retail sales in the past two decades was the huge amount of Mainland visitors. They bought everything, from daily necessities to expensive and not-so-expensive jewelry, and high-end and not-so-high-end fashion and cosmetics. Some people in Hong Kong and elsewhere have the erroneous impression that the Mainlanders are poor. Far from it! Those who visit our city for sure have money to spend. While not all can afford or like to stay at five-star hotels, many of them help fill our mid-range and low-end facilities. In the process, jobs are created for our residents.

Now all these are gone. Rioters were not just targeting the local government; they wanted nothing to do with the Central Government of China. If they had stopped there, the negative impact on our economy would still not be detrimental. But they were against Mainlanders as well, the very visitors who were trying to shuffle dollar bills into our pockets.

Another anecdote will help drive home the point. About two weeks ago, a small Mainland organization comprising top high-tech entrepreneurs visited Hong Kong. They spent three days at an expensive hotel and invited me to address them on a Sunday. The evening before, they planned to dine at a fancy restaurant some 200 meters away. That afternoon, two women staffers wanted to determine if a bus was necessary. Dutifully they walked over to the restaurant to check out the route. While on the streets, their spoken Putonghua must have betrayed them. A "Black Coat" (the infamous rioters) heard them speak Putonghua and not the Hong Kong's local dialect Cantonese. He harassed the two young women in a very unbecoming way. Terrified, they ran back to their hotel and rented minibuses. This was by no means an isolated incident. Will my friends hold meetings again in Hong Kong? I doubt it.

Since Mainlanders are apparently no longer welcomed by our residents, why should they come?! With money in the pockets, they can spend it anywhere. Many other cities will warmly welcome them. One must recognize the fact that the extraordinary growth of our economy in the past two decades was intricately related to the Mainland and to the visitors therefrom. By scaring them away, we are forcing their dollars to go elsewhere.

It is important that we understand the severity of the problem. For the past many years, the Mainland accounted for 75% to 80% of all visitor arrivals. As is true elsewhere in the world, their average per capita spending is among the highest in the world. They outspend the Japanese, the Germans, the Americans, etc. Given the quantity and quality of this group, their absence will greatly hurt our economy.

The impact is felt immediately as we have experienced in the past months. From shops and restaurants, the listlessness rippled outward. Retail as well as office rents have softened; commercial real estate transactions have disappeared. Price and transaction volume of mass residential have both moderated. The 50-plus percent of our population who own homes will not be happy. As the negative-wealth effect sets in, people spend less. The economy spirals down.

It will not be easy to keep the rents up in Hong Kong for the coming year. As always, we are realistic about rent renewals, and will sacrifice some price for a higher occupancy. It is better to lose in one dimension and not in both. Vacancy is usually the worst scenario.

What about the long-term future of Hong Kong? After all, Hang Lung has always been a long-haul player. The short answer is: I am genuinely worried. In fact, since Hong Kong's return to her Motherland in 1997, I have never been this concerned. If this city were to lose its greatness, it would not be economically instigated. Instead, it would be caused by social and in particular political developments that could hurt us. This is now being played out in front of our eyes.

If the nature of our problem was primarily economic, we might lose time but would sooner or later get back on our feet. Recovery might be even faster today because the Central Government is now financially strong and can pull us up. But since our present problem is political in nature and is self-inflicted, it will be much more difficult to resolve.

As I have publicly stated in the past, a root problem of Hong Kong and its governance is that the local people have very different social genes than those of the Mainlanders. The former for the most part escaped to Hong Kong either around 1949, during the political campaigns of the late 1950's, the Great Famine of the early 1960's, the 10-year Cultural Revolution (1967 to 1977), or in the aftermath of the student movement of June 1989. As a result, they have an inherent mistrust for and a deep-rooted fear of Beijing.

Once those Chinese moved to Hong Kong, in whichever time period, they were subtly stripped of their sense of nationhood. Given their attitude towards Beijing, this was not too difficult. Neither were they allowed to meddle in politics. This gave rise to a population which has three strong characteristics: a deep suspicion of Beijing, a lack of national identity, and political naivety. This is the exact opposite of our compatriots north of the boundary. They grew up in an environment where politics is paramount; are for the most part ardent patriots; and almost all of them support the government.

To be sure, the Mainland has improved tremendously in almost all aspects of society over the past 40 years. Chief among them is her economic progress. Yet the memory of the first 30 years of troubled history since 1949 has been indelibly etched into the psyche or social genes of the Hong Kong people. Moreover, the social norms of the two sides differ greatly. Instead of trying to understand their compatriots from the north, Hong Kong people simply look down on them.

Underestimating the depth of such feelings will make overseeing Hong Kong impossible. Does Beijing understand this? I have my doubts, yet this is at the root of today's difficulties.

To make things worse, while this is the general attitude of most Hong Kong people towards the Mainland, like every other society, there is always a small group of radicals. To them, Beijing is the root of all evils. Their stated or unspoken objective is to cut all ties between Hong Kong and her Motherland, unless they can change Beijing to their liking. Since the latter is hardly possible, this group at heart craves for Hong Kong independence, although they dare not say it, or are too smart to admit it.

Several months ago, certain influential individuals from the capital visited Hong Kong. They were befuddled as to why some of our citizens want independence. I told them that such people at heart do not really want independence. Their goal is not so much to change Hong Kong's political system as to change that of the country's. If they were to succeed in the latter, would they still want Hong Kong independence? Not at all! This clearly shows that what those extremists ultimately want is not to overthrow Hong Kong but Beijing. Given that, how can the Central Government not treat our problem with the utmost care!

In today's toxic relationship between the U.S. and China, such zealots easily become a pawn in the much bigger chessboard of geopolitics. There are always foreign governments who are all too happy to take advantage of Hong Kong's turmoil to cause Beijing pain, if not harm.

During Hong Kong's 2014 Occupy Central or Umbrella Movement, the organizational capacity of the dissenters was tremendous. Whereas there are many local people who can devise and operate complex projects and structures, riot-related expertise has not been seen in this city. As such, it was almost certain that there were foreign coaches and supporters.

Compared to merely six years ago, this time the riot organizers have brought the game to a much higher level. A knowledgeable person told me that the tactics used and technologies employed were among the most sophisticated in the world. It defies belief that the locals were not trained by the best in the world. Many observers arrived at the same conclusion as to its source. At the least, it is a fact that an intermediate step of that help came through Taiwan. Riot leaders have publicly admitted that.

If the present trouble had taken place at a time when the China-U.S. relationship was warm and cordial, the situation could not have developed to such an extent. Not only are the local radicals a pawn; the whole of Hong Kong has become the same!

What was the role of the local government in the present turmoil? It provided the spark, the now defunct extradition amendment bill, as well as much fuel through its incompetence and total lack of leadership. It is amazing to witness what it has done and what it has failed to do. All these have helped to unleash the deep-seated mistrust of many for, and the bitterness of a few towards, Beijing.

Then, there are structural flaws in the design of the One Country, Two Systems construct that have increasingly added much strain between Hong Kong people and the Central Government. For example, our CE and all the major officials are appointed by Beijing as prescribed by the Basic Law. Since China is a unitary state like most countries in the world, all powers in Hong Kong are devolved from the Central Government. Yet under the Basic Law Hong Kong has been promised a high degree of autonomy, but not full autonomy. How high is high? And some are obviously pushing for full autonomy. This makes the relationship between the two sides very delicate and tricky. No one here or in Beijing, in fact anywhere in the world, has any experience handling this.

If one is objective and fair-minded, he or she would have to agree that Beijing has basically honored its commitment. The practice of the first many years since Hong Kong's return to China was "no governance is good governance." By July 1, 1997, most Mainland officials then responsible for Hong Kong affairs retired or were re-posted. Rules were put in place that made government officials on the Mainland traveling to the Hong Kong Special Administrative Region (HKSAR) extremely difficult. Permission for each trip must be obtained from the top. Beijing's trust in Hong Kong people governing Hong Kong was almost absolute.

On the other hand, whenever Hong Kong needs or wants anything such as economic assistance, Beijing almost always obliges. For example, during the Asian Financial Crisis, our financial system was given much needed backing. During and after the SARS outbreak of 2003, again certain Mainland policies were changed and new ones instituted to help Hong Kong. Without allowing millions of citizens north of the boundary to annually travel here and spend money, would our economy have been so strong in the past two decades? No way!

Put yourself in Beijing's position: what did they receive in return from Hong Kong? Chiefly the pride of a unified country that had for centuries been divided by Western powers. Ironically, many in Hong Kong do not share that sentiment. As mentioned earlier, they have no national identity whatsoever.

Other advantages are usually beneficial to both the Mainland and Hong Kong. For example, our Stock Exchange provides Mainland corporations a platform to tap international capital. However, consider the many high-paying jobs it creates for this city, and the economic benefits it produces. Frankly, without us, these companies could still go to Singapore, London, or elsewhere for funding, although Hong Kong is more convenient. But without the Mainland corporations, our financial services sector would have shrunk by a lot! Much of the market capitalization of our Stock Exchange and its daily transactions are nowadays related to Mainland entities. In other words, they can do without us but we can hardly do without them.

As I wrote six months ago, Beijing was way too relaxed in overseeing Hong Kong after 1997. When certain aspects of the Basic Law were not strictly adhered to, they turned a blind eye, trusting that our citizens would know what they were doing. What the national leaders did not know in the past 22 years was how to be tough. Sadly, this was perceived by the Beijing detractors as weakness – and it was! – and they began to agitate for change, often in contravention of the Basic Law. Time and again, Beijing backed off, which further emboldened the opponents. On July 1, 2003, within the hour the then Chinese Premier Mr. Wen Jiabao left our city after a celebration, five hundred thousand marched on the streets against the HKSAR government's plan to enact the national security law. Hong Kong has the constitutional obligation to legislate under the Basic Law, and by not doing so, frankly the existing security law left over from the British, which is draconian, still applies today.

Since 1997, the leaders of the opposition took every opportunity to defy the Hong Kong government, treating it as a proxy for Beijing. They do not care if their actions hurt our residents as long as they themselves benefit politically. Should Beijing tighten a little and return to a more proper interpretation and implementation of the Basic Law? They should, but will they? Or can they?

Before 1997, local residents under the British were not allowed to engage in politics. If not careful, imprisonment without trial or deportation would be your fate. A son of one of my late father's business friends was presented with that choice. The young man had to flee Hong Kong for decades until after 1997. Telephones of a number of our leading citizens were previously daily tapped to check for subversive activities. All that is unimaginable after 1997.

Consequently, before 1997, Hong Kong was almost exclusively a commercial city. With the exception of some selective industries and services that were reserved exclusively for the British, the rest of the economy was free play. Telecom, power generation, airlines, etc. were off-limits to the local Chinese until not long before 1997. On the service side, the medical and legal professions, among others, were open only to those trained in the British system. Luckily, the remaining commercial and professional fields were still big enough for the locals to play in.

Furthermore, the huge uncertainty relating to 1997 had for decades given the locals an urgent sense of living on borrowed time in a borrowed place. Make money fast so one can buy a foreign passport, in case! As a result, Hong Kong was an economically propelled city, driven especially by short-term financial gains. Few other places are like that.

Given this background, Hong Kong has produced many successful businessmen. For the same reason, the disallowance to touch politics also led to a dearth of skillful politicians, especially those who could maneuver in election politics of Hong Kong after 1997. Former civil servants may be capable administrators, but politicians they are not. This is not to mention that under the British, they were not key decision makers. The colonial masters did that; the local officers only executed. This is why we are suffering from a lack of political leadership and high level decision makers.

Some may ask: why then are there apparently capable political operatives in the opposition? When the government makes a decision, it has to live with it and be answerable to society. Consequently, it has to be very careful. Not so for the anti-government crowd. It is always easy to criticize, especially when one does not have to bear the responsibility for one's words or actions. Their job is easy: whatever the government proposes, they automatically object. They oppose for the sake of opposing; and there is no room for compromise. This is not constructive and is often to the detriment of society. But what do they care? The louder they shout, the more headlines they receive from the press, which is useful in election politics. Innate in all of us is a dislike for authority, so beat up on the government and people will like it. At times, it has become a spectacle just like in the West.

Moreover, many of the opposers can be verbally abusive and attitudinally vicious. To mitigate their attacks, many officials simply choose to do nothing, then there would be nothing to be attacked upon. As a result, the government becomes ineffective. Who is to blame? Perhaps both sides, but primarily the anti-government people. The same phenomenon is seen in foreign democratic societies, although it is probably worse in Hong Kong because the chances of the opposition coming to power are extremely low. This makes them even more irresponsible.

Yet such politicians can easily appeal to Western democratic countries. For purely political purposes, the latter would support our opposition. Rights-and-wrongs are thrown out the window, for there is no room for such in international politics. The self-righteous West can become the most unrighteous. Just witness how they supported our rioters of late. The sins of the local criminal acts on the streets are also on the heads of those Western politicians.

Let me come back to the less extreme. Take the case of land supply in Hong Kong, something that is related to our business. Our first, third, and the present and fourth CEs all have sound land policies. None of them could execute because of the opposition. Mr. Tung Chee-Hwa, our first CE, proposed in 1997 the building of 85,000 residential units per year. It was shot down by his opponents purely because it was the government who proposed it. Yes, our second CE, who deliberately sold no land, together with a few greedy developers who convinced him not to sell, must also be held responsible, but it was the anti-government politicians who must bear the main blame.

Here are a few facts. Some 41% of Hong Kong's land mass is designated as country parks; only less than 25% of our territory is built-up. Residential usage only accounts for about 7% of the total. So why not take

1% to 2% of the country parks and turn it into residential land? It could not be done because of the opposition. They have no intention to solve the problem; they are there to create more. Problems validate their existence.

There are also social chasms between Hong Kong people and the Mainlanders living here. One is economic and the other is political, and both have contributed to the unsatisfactory situation of today.

As I have previously written, for decades our average citizen have despised the Mainlanders because the latter were poor. But within a short period of time, many from the north are now much more affluent than we are. This is certainly true for many of those who moved here for work or just to live. Our expensive restaurants are packed with Putonghua speakers. In the past, they inhabited middle-class districts like North Point and Kwun Tong; now they live in the Mid-Levels or Island South as well. We used to find them shopping only in the likes of Mongkok; now they move about in Central District, often better dressed than the locals. This has created a psychological imbalance among some Hongkongers. Those whom we – certainly not I! – once looked down upon are now somehow above us. The migration from despise to jealousy is too fast and too much for many.

If the locals somehow feel inferior in economics, they also harbor a huge sense of superiority in social culture. They believe that our social and political values are better. To be sure, the Mainland has a very different value system, one which many of our people do not like. Whether or not such a view and attitude is justifiable is another matter. Like in everywhere else, most of our citizens do not read history or study global affairs. They may be biased or even ignorant, but this does not change the reality.

To illustrate how big the gap is in Hong Kong between the people from the two sides, let me describe a phenomenon which I have long observed but is seldom publicly discussed. Perhaps due to my total fluency and lack of accent in both Cantonese and Putonghua, which is rare, and given my interest in people from around the world including those from the Mainland, I can move between the two groups with complete ease.

Many of my Mainland-born friends, having lived and worked in our city for two or three decades, are totally incapable of integrating into their adopted community. Many of them are graduates of Ivy League or similar universities, speak fluent English, and hold very senior positions in multinational organizations. Others are highly successful entrepreneurs whose net worth is the envy of 99% of local residents. At work, they are usually the bosses or at least the peers of Hong Kong-born professionals. They are a self-confident bunch. Yet, apart from work, these new Hongkongers have very little social interaction with the old Hongkongers. Language is perhaps the biggest barrier, and secondarily, it is social culture. Although most of our younger generation nowadays can speak Putonghua, usually quite awkwardly, the chance of Mainlanders speaking Cantonese half as decent is close to zero. If the elites from both groups cannot integrate, it is almost impossible to expect this in other social strata.

The Mainlanders in this city are invariably low profile as minorities everywhere are. They like many aspects of Hong Kong, such as low taxation and less interference from the government, but they always have a choice to return to the Mainland. In contrast, most Hong Kong people have nowhere to go. True or not, they feel that the arrival of their compatriots from the north somehow infringes upon them.

All this is like dry wood stoking a fire. The radical minority took full advantage of them, and for now, assert themselves as if they were the majority. They tapped effectively into the anti-Beijing sentiment. The extradition amendment bill introduced by the Hong Kong (and not Beijing) government provided the spark. The incompetence of local officials in handling the fallout greatly fanned the flame. Our city was thus set ablaze.

What worries me this time more than ever was not just its magnitude nor its duration. It is the presence of several phenomena that I have never seen before, at least not to this extent.

First, in the past, it was mostly the young people who were easily enticed to take to the streets. This time, many older folks joined them. This showed how widespread the discontent was.

Second, the riots of late were much more violent than before, possibly as a result of well-organized radicalization. Basic humanity was gone; animalistic instincts were unleashed. I recall an old professor in Beijing who once told me that during the Cultural Revolution of the late 1960's, a perfectly nice young female student could overnight turn into a devil and mercilessly bludgeoned her fellow students and teachers. In principle, this was what we have witnessed in Hong Kong over the past few months. The Cultural Revolution has resurrected itself, and it is here. Who could have imagined that! This tells us that we all share a common human nature that has a very dark side to it.

Third, the anti-Beijing sentiment has never been so widespread, intense, and open. The radicals who hate Beijing have succeeded in turning many of our citizens against the Central Government in a public way.

Fortunately, Beijing has not reacted, and certainly not overreacted. If they had responded harshly, or had treated Hong Kong people as opponents, then the rift would have deepened and might never heal. By keeping silent – amazingly silent – there is still some hope. It is like a feud between two parties. If both sides act childishly, it is game over. But if one party behaves like an adult, then there is hope. Such is our situation today.

Fourth, Hong Kong's reputation as a city with the rule of law is being threatened. So far, very few of the law-breakers – their actions surely qualify them as criminals – have been brought to justice. It was surprising how the majority, namely people who previously were most sensible, have condoned extreme violence. If the criminals were not brought to justice, what would this make of our legal system? In the end, I expect that at least those who have committed hideous crimes must be punished.

Here is something ironic: as we all know, there cannot be democracy unless there is first the rule of law, for the law is the foundation of democracy. Today, many of those demonstrating on the streets are calling for democracy. Whether or not they understand it is another matter. To them, it is the only way to check Beijing. Yet many of the same people were the ones who blatantly broke the law. They did not violate mere petty regulations but committed outright criminal acts. So before they can receive what they want, they have already destroyed its foundation. If one day such law-breakers have their way, will they suddenly become law-abiding? Hardly!

The apparent lack of legal accountability so far has already emboldened some in the society to take up public actions of many sorts, the causes of which are often not legitimate or reasonable. Such actions will further divide society. They will also make our economy less efficient.

Fifth, over the past two decades, Hong Kong has increasingly become a political city. The economy is wantonly sacrificed for political goals. For purely political purposes, roadblocks to commercial activities are erected for honorably sounding but erroneous and sometimes ridiculous causes. Gradually the economy is unknowingly left to die and there is nothing to rejuvenate it. No one is interested in business because they are too occupied by politics. History from around the world tells us that within two or three decades, the economy will become listless. By way of a reminder, 1997 was over 22 years ago.

This brings to mind Taiwan. Since practicing election politics, the economy has gone nowhere. The island is living off its past business success. There is a deep divide in the society between those who seek independence from Beijing and those who want to maintain the status quo. In Hong Kong, it is between the pro-Beijing and the anti-Beijing camps. As political scientists tell us, one-man-one-vote type of democracy does not work when there is a deep ideological, religious, or racial fissure in the community. Such was the case in Taiwan and is now also the case in Hong Kong. Taiwan's downfall is becoming ours.

My sixth and final point is that Hong Kong, through its vocal minority, has alienated Chinese citizens on the Mainland. The negative impression will likely last for many years to come. Apart from necessary visits such as for business, most of them will stay away. The good days of yesteryear are gone and there is nothing on the horizon that can replace them as far as our economy is concerned. Hong Kong has managed to kill the goose that laid the golden egg.

For now, the economic impact of the recent turmoil will also be immediate. The rates of GDP increase this year and the next will inevitably slow down, if not contract. A good number of our citizens will lose their jobs, and everyone will suffer. If not for the latest trouble, chances are good that more and more Mainland well-to-do's will purchase homes in Hong Kong. Now they will think twice.

Two more important aspects of our society bear mentioning. I recently stated in an interview that two of Hong Kong's strongest economic drivers were financial services and our universities. I am hopeful that for lack of better alternatives, we will be able to retain our status as Asia's premier international financial center. Mainland companies have been the biggest user of this service, and we must do all we can to retain them. A Singaporean with some capability in this area would be unpatriotic if he does not try to attract such corporates to his shores. Why not, for it is fair play.

While any disruption to the financial services industry will immediately impact the economy, the waning of our universities and their influence on society is of a longer-term nature. Top-rung tertiary educational institutions help improve the quality of our people and of our economy long into the future. The converse is also true.

Twenty to thirty years ago, Hong Kong universities were known to pay relatively high salaries. Our University Grants Committee (UGC) makes research money available to professors. Consequently, many top academicians from around the world flocked here. For ethnic Chinese from the Mainland or Taiwan, there is the added benefit of being close to home. It is easy to visit their elders from Hong Kong. This was one of the keys how our institutions became so good. In the latest ranking of a reputable organization, three of our eight universities were among the world's best 50, with a fourth ranking number 52 and one more within the top 100. No other city in the world can boast of such numbers! This in turn drew to our shores excellent Mainland and foreign students both at undergraduate and graduate levels.

Sadly, the turmoil of late will inevitably change all this. Our biggest group of non-Hong Kong-born professors is no doubt from the Mainland. Many of them have received advanced degrees from the likes of Harvard, MIT, Stanford, Cambridge, and Oxford. A good number were already tenured in highly regarded institutions before moving here. With the horrific experiences of the past few months and the toxic social environment against them, it is doubtful if many of them will remain in Hong Kong for long. Those considering job offers here will unlikely come.

Furthermore, in the past decade or two, university salaries on the Mainland, especially for the very capable, have caught up with our own. Research dollars in many fields are more abundant than can be found here. Consequently, in recent years we have increasingly seen such talents choose Mainland institutions over ours. Now we have made our own chance of attracting or keeping them much more difficult. Only the less capable who have few alternatives elsewhere will come or remain. This trend can only continue to our detriment. When this happens, talented students everywhere will also not make us their top choice for study. Our universities run the risk of spiraling downwards.

The above is a summary of recent history which is necessary to understand today's predicament. It shows that the unrest will have immediate as well as far-reaching negative impacts on our society. The changes they bring are systemic and not just cyclical. Unless appropriate drastic measures – if indeed they exist – are taken, our future will not be bright.

In June 1995, a journalist acquaintance of mine, the late Mr. Louis Kraar, wrote in *Fortune* magazine a lengthy article entitled "The Death of Hong Kong." It was published ahead of our return to the Motherland. Many British and all China-haters were delighted, Hong Kong people were aghast, and Beijing was upset. I decided to do something about it and flew to the U.S. twice to meet with the author. My efforts were never publicized before and were known only to some of my friends.

Needless to say, I presented to Louis the other side of the story. He learned something new, but it was not easy to admit mistakes. After many hours of exchange, he said that he would discuss with his editor and promised to publish another article with the newly acquired knowledge. I flew back to Hong Kong with some hope of partial success.

When his second piece came out in September 1996 – 15 months after the first – I was disappointed. Not only were my points watered down; half of the article was about me. Indeed the piece was framed as an interview. Louis had purposely missed the mark. I flew back to the U.S. East Coast and spent a few more hours with him. This time he asked me to write something myself. By the time my article came out in January 1997, the damage was done. It was not until July 2007, a full 10 years after Hong Kong's return, or 12 years after the first piece was published, did the magazine admit its mistake – Hong Kong did not die.

Given this history, I suppose I am in some position to comment on today's affairs in this city. Hong Kong still will not die, but we risk losing the shine of being the Pearl of the Orient. Our future is now in the balance.

What can Beijing do? Frankly I do not know. Conceptually there are three possibilities: remain soft or feeble, play tough, or a combination of the two, preferably gentle on the outside but firm on the inside. They have tried being soft without much success. The mess we are in today is a direct result of it. Being tough will only exacerbate the situation. This is not the time. With the opposition determined to make martyrs of a few among themselves, Beijing may not like to oblige unless it decides to dismantle the entire One Country, Two Systems construct. I seriously doubt if Beijing would do that.

So the only alternative is a hybrid solution, but it is extraordinarily difficult to execute. If put in China's position, I doubt the U.S. or almost anyone else could manage it satisfactorily. If anyone could do it, it would be the British. History has shown that they know best how to exploit human weaknesses to their own advantage. This was how some 200,000 British, of which only about 10% were officers and soldiers, successfully ruled over a 300 million-strong India for 200 years. This was also how they navigated in Hong Kong since 1841 when the rest of China went through turmoil after turmoil throughout that time.

One key reason for the success of the British was their employment of hypocrisy to perfection. To be sure, every person and every nation is hypocritical. Anyone who says that he or she is not is either lying or self-deceived. Yet the Americans will tell you that they are the exception. They really believe it – how self-deceiving! When the British are told that they are hypocritical, they will neither deny nor admit it. They will merely look at you with an ever so faint a grin. They have perfected the art. By not denying it, they are actually the most honest.

What about the Chinese? It is not in Beijing's temperament. They are culturally incapable of using it to their own advantage, not least of which is the present Beijing government. Will they be able to do it in Hong Kong? We will see, and I certainly wish them success.

Naturally my prognostication for Hong Kong may be erroneous. If I am wrong, it will not be the first time, nor will it be the last. But if my general direction is correct, then what does it mean for our economy? Growth will be slow for many years to come. There will always be a brief catch up after the initial fall, but the rate will likely moderate again.

What about our business? The answer is obvious: our reliance on the Mainland portfolio will heighten. Hong Kong will not disappear, and neither will our properties here. We will continue to collect decent rent, but increases will be slow for the coming few years. This is expected of both our retail and office rental.

Fortunately we do not have luxury malls in Hong Kong like we do on the Mainland. Those here will likely suffer the most as the Mainland wealthy stop coming to shop. After all, recent Beijing policies have considerably equalized the prices of high-end fashion items between the Mainland and cities elsewhere, including Hong Kong. Many of the top brands used to do 5% to 10% of their global business in this city, much of it selling to Mainland Chinese visitors. This percentage cannot but fall, and likely drastically. Much of this lost business will be domesticated, which can only benefit malls like ours in Shanghai and elsewhere.

This is the perfect juncture to turn to a much more pleasant subject: the prospects of our Mainland properties. Let me begin with the weaker segment which is the offices.

Going around the big cities in China, one cannot help but notice the huge number of empty offices everywhere. Very few of them were designed correctly or constructed well. Outside tier-one cities, there are hardly any that are of world-class standard. Many are not even in reasonable locations. As I have explained before, those developers blatantly ignored the "real estate genetics" for high-end commercial projects. There is almost no chance that those office blocks will succeed. Many will remain empty or half empty for a long time, if not forever.

Center 66, Wuxi

On the other hand, our office towers everywhere embrace these cardinal genetic factors and so have done well. Nevertheless, oversupply provides tenants with choices, which will dampen rental rise. Being the best in class, for us to maintain full or near full occupancy should not be a problem, but the investment return can never be compared to that of malls. This we have known from day one.

Take the case of Center 66 in Wuxi. While our first tower hovers at 90% occupancy, the second, which opened last August, is already 25% leased. In time, it will be filled. Besides providing a reasonable return, its function is to support the mall below. Offices bring quality footfall, for the two product classes complement each other.

Nevertheless, such a phenomenon prompts us to be cautious when we evaluate new projects. Our Westlake 66 in Hangzhou should be an exception. With the city almost being tier-one, there are many fully let office buildings, but very few are Grade A or in the traditional city center where we are located. We should be able to create a true "downtown."

The problem all over mainland China is caused as much by the government as by the developers. I have come across all too many projects where the city stipulates many office blocks atop or adjacent to the mall. Their motivation is obvious: the higher the plot ratio, the more money the government receives with land sales. This is a clear violation of the third of my five-point genetics – unreasonable development briefs to which the land purchaser must adhere. Many problems will flow from it.

First, the local economy simply cannot absorb so much office space. It is an outright disrespect for supply and demand, the most basic market economic principle. Second, it is a huge misallocation of resources and is environmentally unsound. I have seen high-rise office buildings constructed, left empty for years, even decades, and eventually had to be torn down. While standing, it could not be leased or sold at any price and is an eyesore.

Third, no quality projects can be erected given such governmental stipulations. Mankind has never seen such a scale of city-building like China in the past 30 years, but why is there so little truly outstanding architecture? At the initial stage, one can rightly blame the lack of finances. Any office was better than no office when the economy began to move up. After all, the Chinese at that time had never seen decent quality buildings. But even in the past 10 to 15 years, we still saw pitifully little. The local business community simply did not think about it. Even many overseas developers did not believe in it. Thank goodness that we did. But as a fast developing country, the lack of good architecture was definitely a great opportunity lost.

In the past 15 years, we were twice confronted with this decision: we found land that we liked but the governmental brief was most unreasonable, so should we buy or not?! It was a real heart-wrenching time. Eventually we decided to be conservative in our bidding and ended up losing both plots. Did I regret it? Strongly at the time, but not half as much today. Some competent developers bought the land and did their best to make their projects work. It was not easy for them, if not impossible, because there are birth defects, i.e. genetic defects.

History has shown that given such conditions, no world-class development could be erected. Moreover, the financial return could be seriously curbed – constructing more may actually mean less return for the developer. The rich rental income from the mall must carry an unreasonably high cost – the land element allocated to the empty offices as well as their construction expenses. In such a situation, no one wins – the developer or owner cannot maximize profit, the tenants do not enjoy a pleasant environment, the citizens are forced to live with empty and poorly maintained skyscrapers. As for the government, while obtaining cash upfront from land sales, it will be unable to collect more from ongoing taxes. Very regretful for all!

Fortunately, we are not stuck with any such projects. The experience makes us more careful when evaluating new opportunities. So far, we are quite happy with what we already have. We will continue to do our best to maximize the long-term profit therefrom.

In the coming year, I expect our Mainland malls to continue to perform well. For Plaza 66 in Shanghai, I cannot guarantee double-digit rental growth for the fourth straight year after the AEI, but believe that our chances are good. Grand Gateway 66 will fully reopen by the third quarter, and tenant sales and rents should both soar. It will not surprise me if like Plaza 66 in the same city, it will see a few years of double-digit rise.

Outside Shanghai, I anticipate improvements across the board. Parc 66 in Jinan has been an excellent workhorse in the sense that it is big and its revenue has been steadily growing for many years. The mall was completed in 2011 and is now due for minor refurbishment and indeed some upgrading. The goal is to bring in more luxury brands that can pay higher

Parc 66, Jinan

Palace 66, Shenyang

rents. Plans are already in place, the execution of which will inevitably bring minor disruptions to business. It is necessary if we want to achieve even better unit rent soon.

In Shenyang, Palace 66 has in recent years occupied a market niche that is producing steady increases in rent at a respectable rate. The pleasing performance is the result of our fine-tuning of the tenant mix. It is now closer to optimal than before. That said, market condition changes continually, so we must move with the times. Only then will we be able to sustain the stream of rising rent; but so far so good.

Forum 66 also in Shenyang is improving slowly. Plans are being drawn up to build out Phase 2, which comprises residential towers as well as a shopping center that will be integrated with the existing one. It will enlarge our retail space by about 50%. It should make the combined mall much more competitive. The residential units will be sold.

Olympia 66 in Dalian should continue to trade very well. I can compare it to Palace 66 in Shenyang (in the same province of Liaoning) and Center 66 in Wuxi. What took place there will now likely take place here.

Palace 66 was our first development to open outside Shanghai in 2010. The first few years were really tough and the bear market which began in 2011/2012 did not help. After much efforts by Management, by around 2014, I told shareholders that Palace 66 had turned around and might become a star. It did.

Center 66 opened in 2013 in the depths of a market trough. But by around 2016, which was still a year or two before the bear market ended, I pronounced that the property would one day become a darling of the group. Soon enough, it became our second "Home to Luxury" (the first being Plaza 66 in Shanghai) and has since been on the rise.

2019 performance numbers as reported earlier tell the story. For Palace 66 and Center 66, rental growth was respectively 20% and 22%; operating profit rose 56% and 59%; rental margin has for both projects increased to 45%; and tenant sales were up 20% and 21% respectively. The next few years should still be very promising for both properties.

Now I anticipate that Olympia 66 should be the next development to experience a similar breakthrough. The reasons are the following: its increase in tenant sales was the strongest of all our Mainland malls at 29% last year. Rental revenue climbed 28% in 2019, and operating results rose by 81%, making it our best performing property in terms of improvement. Organic growth is expected to continue. Phase 2, accounting for 13% of total space, is now being released into the market. Tenant mix is moving upmarket, resulting in higher unit rent. Some top brands have already moved in, and many more are expected in the coming years.

Olympia 66, Dalian

Riverside 66 in Tianjin will continue to improve slowly. As many businesspeople in the city know, the local economy has been a disappointment. No mall operator is doing particularly well because of that. In such an environment, our performance, while lackluster, is considered acceptable. The market does not seem to be growing that fast, although economic statistics may indicate otherwise. If true, why are all the shopping centers throughout the city struggling? In any event, we are trying different things with the aim to bring improvement to tenant sales, followed by increase in rents. Hopefully we can grow at around 10% or more, up from the present low- to mid-single-digit.

Spring City 66 in Kunming should be a success from day one. Located in the capital of Yunnan Province, which is the country's gateway to Southeast Asia, there is so far nothing in the city that comes close to our quality and size. We will likely draw customers not only from Kunming but also from the entire region. The fact that so many of the world's biggest fashion names are in our mall is a confirmation that our decision to enter the market nine years ago was the correct one.

The 66-story office tower of almost 170,000 square meters was opened at the same time as the mall. They are beautiful together! I expect that our experience in Forum 66 (in Shenyang) and Center 66 (in Wuxi) will be duplicated here; namely, the skyscraper will gradually fill up. Most of the tenants will be either multinational companies or major Chinese corporates. At 350 meters, it is so far the tallest building in Kunming and in the province.

The rest of the project comprises apartments and a hotel. Grand Hyatt will be the hotel operator, and it will open in 2023. Pre-sale of the residential portion is targeted to begin in 2022.

Both the mall and the office tower in Heartland 66 in Wuhan are targeted to open in the third quarter this year. Retail leasing is quite strong and we are negotiating with more top fashion brands. We are also beginning to sign rental agreements with office tenants. I am hopeful that the project will be as successful as Spring City 66 in Kunming when it opens. The omens are also favorable for long-term success.

Westlake 66, Hangzhou

Westlake 66 in Hangzhou is still targeting 2024 for the opening of Phase 1, with the rest to open in the following year.

Starting next year, we will begin to pre-sell Mainland residential units. In the order of completion, they will be Heartland 66 in Wuhan, Center 66 in Wuxi, Spring City 66 in Kunming, and finally, Forum 66 in Shenyang.

In Hong Kong, for now the turmoil on the streets has somewhat died down. If it does not flare up again, then this year's retail environment should be better than the second half of 2019. In fact, there is usually a period of sales rebound after a slow down which is caused by exogenous factors, i.e. not due to organic market factors. This is the best scenario that we can hope for. A worse case would be the return of social unrest. We cannot preclude this possibility. As such, there is no way to tell at this stage how our rental business will fare in the year ahead. The same goes for the possible sales of more luxury houses on Blue Pool Road.

Some three weeks ago, a new coronavirus was discovered in Wuhan where Heartland 66 is located. Having gone through SARS, which in fact had heavily hit one of our Hong Kong residential buildings in 2003, we are very sensitive. Let us hope that it will not spread. But if it does, then our business on the Mainland will inevitably suffer. We will watch the situation closely.

This year our parent company HLG celebrates its 60th anniversary. In my letter to shareholders there, I have briefly analyzed our industry in Hong Kong during that period as well as look back on our own history. Suffice to say here that I believe that better days are ahead of us. Barring unforeseen circumstances, the next few years should be quite rewarding, thanks to our Mainland business.

Ronnie C. Chan
Chairman
Hong Kong, January 21, 2020

Addendum to Chairman's Letter to Shareholders

Our last Board meeting was held on January 21, which was also the date of my year-end letter to shareholders. I mentioned in my Hang Lung Properties (HLP) letter the new coronavirus disease or COVID-19 which has already been spreading in Wuhan. At that time, people did not fully recognize its seriousness. However, only a few days later, in fact right before Chinese New Year (January 25), China and indeed the world woke up to the severity of the epidemic. Since then, a lot of bad news has been reported, not just from the epicenter but also beyond. Doubtless, it will negatively impact our business, hence this Addendum.

My plan was to write this Addendum as late as possible, right before we have to go to print, with the hope that more information will be forthcoming. Unfortunately, there is still no end in sight to the problem. Perhaps the only good news is that some experts believe that the spread of the epidemic may be peaking. Whatever the case, being for long years associated with the field of public health, I have of late been in touch with many top experts from around the world and do my part to help, especially in the two places where we operate our business – mainland China and Hong Kong.

Wuhan, where Heartland 66 is being built, has for a while now been sealed off from the outside world. Most transport links between mainland China and other countries have also been cut, and that includes Hong Kong as a Special Administrative Region. Retail everywhere in China has fallen. A mall is considered lucky if footfall does not drop by 80% or more. Luxury sales on the Mainland tumbled in the past month. On January 25, we announced to our Mainland retail tenants an across-the-board cut of 50% base rent for three weeks. But the situation is still very fluid. We will work with our tenants to alleviate the potential impacts on both sides.

As mentioned in my HLP letter, since the fourth quarter of last year, in Hong Kong we had to give some rent relief on a case-by-case basis. This was due to retail slowdown brought on by the social unrest. Just as that trouble appeared to have moderated, we found ourselves hit with the novel coronavirus outbreak. The only positive outcome of the latter is that it would make large-scale street riots less likely. However, the impact of the invisible virus on retail is expected to be greater, although more short-lived, than the visible social turmoil.

In my letter to HLP shareholders, I presented a "somewhat harsh scenario where Hong Kong rents would fall by 5% per annum for the next two years." This was based on the assumption of prolonged social turmoil. If the epidemic is over by April, then I am hopeful that our Hong Kong rents for 2020 would not drop by that much, although it is not beyond the realms of possibility. As before, we will negotiate as needed with each tenant regarding rents. Past experiences here and elsewhere show that there should be a rebound once a public health threat is over. The negative effect also will not extend to a second year.

When the 2020 budget was formulated late last year, we were projecting a very good year on the Mainland. The performance in January was indeed strong until the last week of the month. Since no one knows when and how the epidemic will end, it is impossible, at this stage, to project full year results. It is possible that the anticipated rental growth in the high teen numbers may be halved or even more.

Construction projects everywhere will slow down, especially in Wuhan. At the media and analyst conferences right after announcing profit (on January 21), I commented that we needed to watch out if construction workers would return to Wuhan to work after Chinese New Year. Since then, Beijing has extended the holiday season for the entire country to February 16. Construction everywhere, however, has yet to resume work until the government gives its permission. In some cities like Wuxi and Tianjin, all malls (and other places where people congregate) were ordered to close. Only today will Center 66 in Wuxi reopen. We are currently applying for Riverside 66 in Tianjin to do business again.

Our hope is that, instead of the third quarter, Heartland 66 in Wuhan can still open before the end of the year. The Asset Enhancement Initiative (AEI) at Grand Gateway 66 in Shanghai may also be slightly delayed, as will other projects under construction, like our residential developments. As well, we will need to see how luxury brands will react after the COVID-19 epidemic is over. We hope that negotiations on new leases will not be too much affected.

I am gratified to report that under the capable leadership of our CEO, Mr. Weber Lo, the morale of our colleagues everywhere is high. Of our 200 or so staff in Wuhan, a little over two dozen are Hong Kong citizens. The leader in fact volunteered to stay there with his team. I salute all of them! Needless to say, we at the head office are in constant contact with them, and will do our utmost to support them.

Whilst the epidemic, which has brought with it tragic loss of life and a profound impact on business, is deeply regretful, nevertheless history tells us that the market will recover once it is over. We firmly believe that this short-term setback will not affect our longer-term prospects. Our future is still bright.

Ronnie C. Chan
Chairman
Hong Kong, February 21, 2020

Spring City 66, Kunming

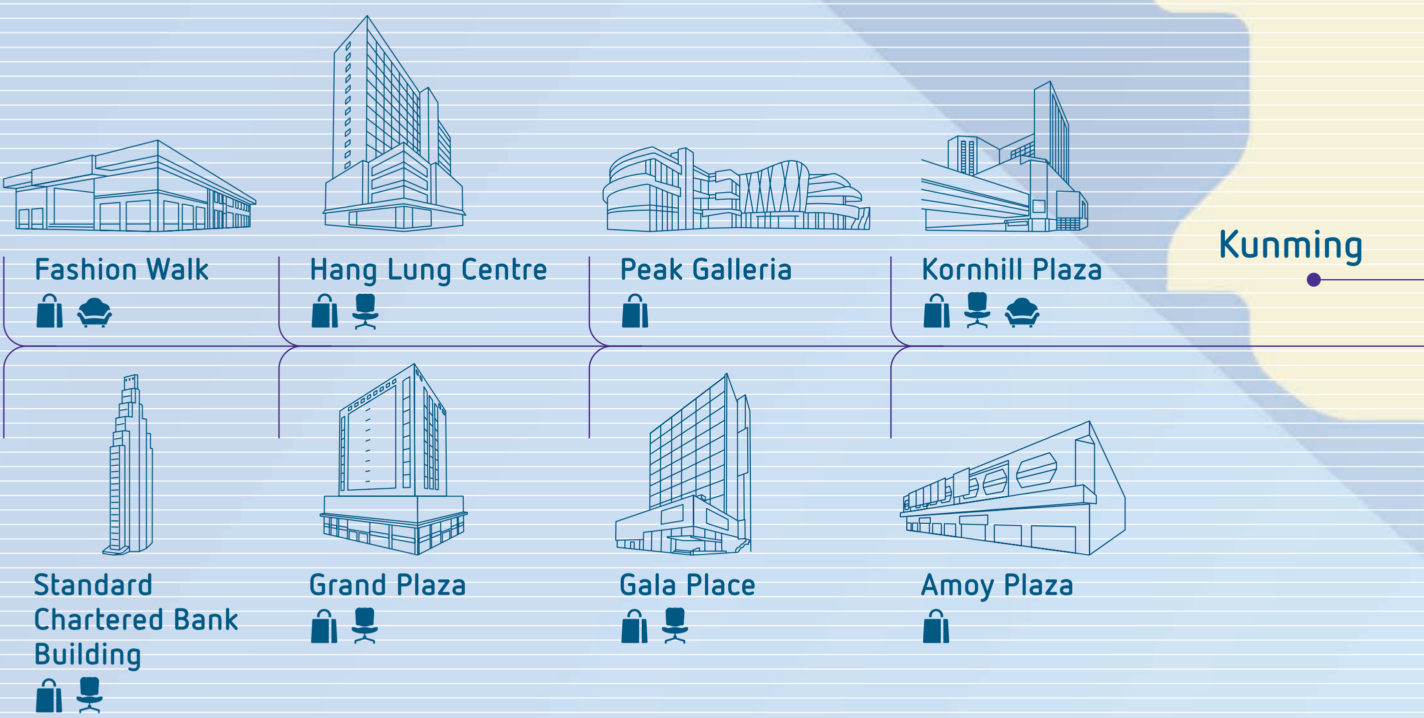
BUILD HANG LUNG BRANDED EXPERIENCE

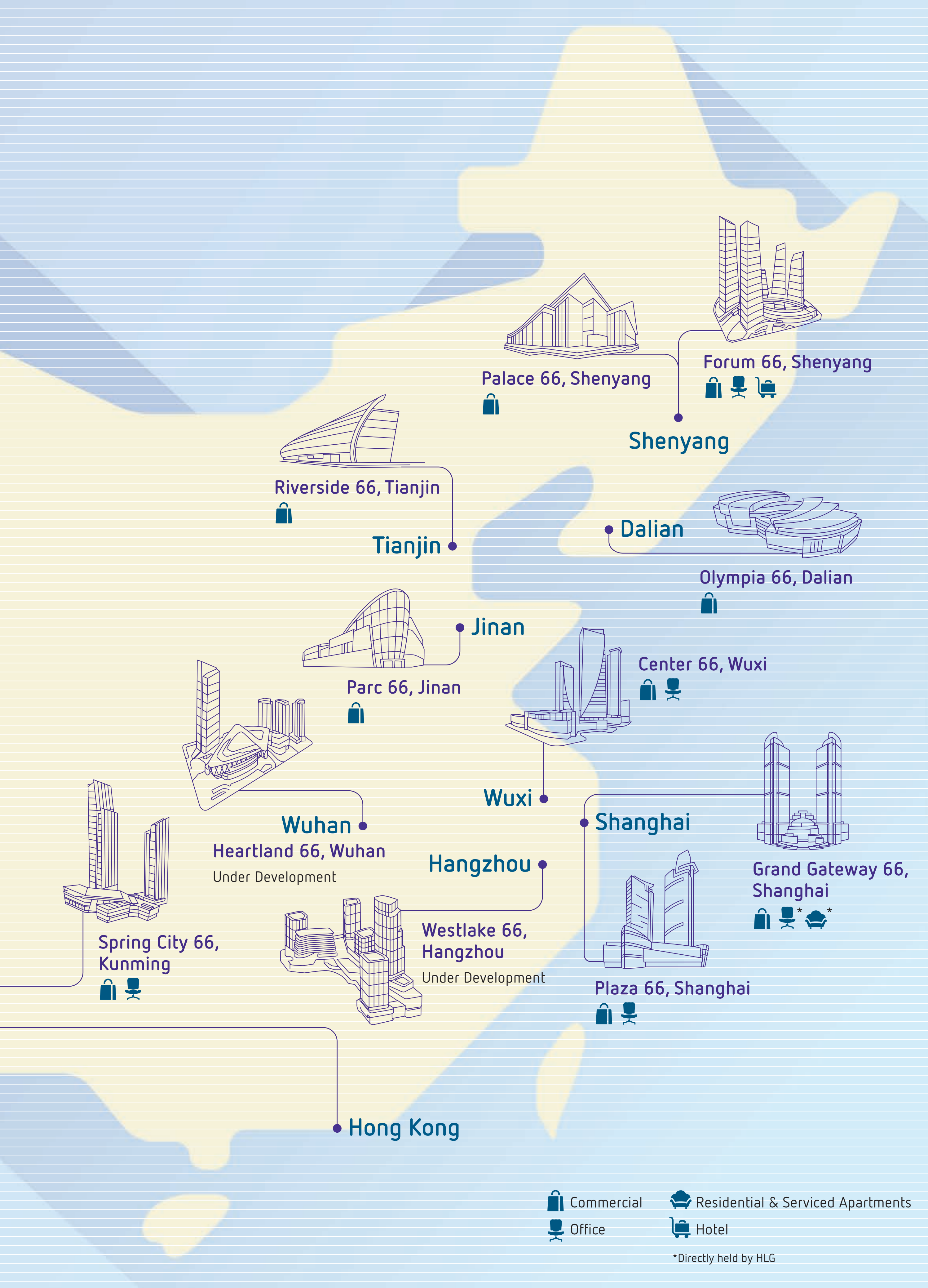
Artist's Impression for Reference Only

Westlake 66, Hangzhou


Artist's Impression for Reference Only

Our Robust Property Leasing Portfolio





Palace 66, Shenyang
Forum 66, Shenyang
Shenyang
Riverside 66, Tianjin
Tianjin
Dalian
Olympia 66, Dalian
Jinan
Parc 66, Jinan
Center 66, Wuxi
Wuxi
Shanghai
Grand Gateway 66, Shanghai
Wuhan
Heartland 66, Wuhan
Under Development
Hangzhou
Westlake 66, Hangzhou
Under Development
Spring City 66, Kunming
Plaza 66, Shanghai
Hong Kong
Commercial
Office
Residential & Serviced Apartments
Hotel
*Directly held by HLG

PORTFOLIO KEY FACTS AND FIGURES

Mainland China Property

Brief on Properties

Plaza 66, Shanghai

Positioned as the Home to Luxury, the five-story mall is home to over 100 global prestigious luxury brands, including Louis Vuitton, Hermès, Chanel, Dior, Cartier and more, with many brands making their debuts on the Mainland or Asia there, including CELINE (Men's store) and Pronovias.

The two office towers at Plaza 66 combine a prime location with top-notch design and premium facilities, attracting prominent multinational and local corporations, information technology companies and fashion labels as tenants.

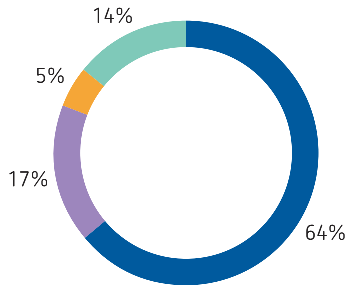
Grand Gateway 66, Shanghai

Located atop the metro station of the premium Xuhui district, Grand Gateway 66 showcases over 340 top labels and popular brands such as Balenciaga, Chloé, Burberry, Gucci, Jimmy Choo, Tiffany & Co., Zara, Starbucks Reserve Princi Bakery Café and others to fit a contemporary luxury demographic.

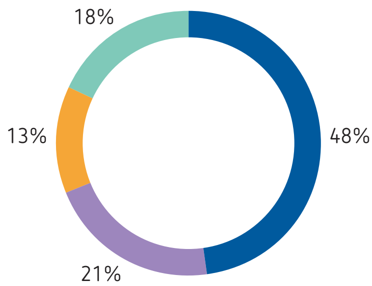
The office tower* houses numerous world-class corporations listed on Fortune Global 500 while the high-end serviced apartments* offer more than 600 suites with a luxurious array of private clubhouse facilities that have long been the residential choice for expatriate executives in global enterprises.

- Fashion & Accessories
- Food & Beverage
- Lifestyle & Entertainment
- Others

Commercial Segment Distribution (by Leased Floor Area)



Commercial Segment Distribution (by Leased Floor Area)



Key Statistics

		Plaza 66, Shanghai	Grand Gateway 66, Shanghai
Gross floor area (sq.m.)	Commercial	53,700	122,262
	Office	159,555	67,223*
	Residential & Serviced Apartments	N/A	83,942*
	Hotel	N/A	N/A
Number of car parking spaces		804	752
Occupancy rate (at year-end)	Commercial	99%	91%
	Office	93%	96%*
	Residential & Serviced Apartments	N/A	88%*
Number of shopping mall tenants (at year-end)		131	342

Commercial Office Residential & Serviced Apartments Hotel

*Directly held by HLG

Palace 66, Shenyang

Situated in the city's financial hub, Palace 66 showcases over 240 popular brands that span across fashion, leisure & entertainment, beauty & cosmetics, food & beverage and more, acting as the nexus of the young and trendy consumers. Tenants include Air Jordan, adidas, UNIQLO and more.

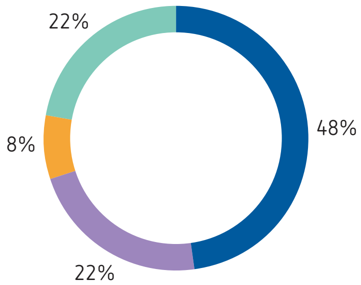
Forum 66, Shenyang

Located at the core commercial area in Shenyang, Forum 66 is a luxury-led specialty mall housing globally acclaimed labels like Chanel, Cartier, Christian Louboutin, Valentino, Lanvin and Piaget, as well as cosmetics specialty store, boutique supermarket, upscale cinema, global cuisine options and lifestyle services.

The office tower is currently the tallest office building in northeast China, with numerous multinational corporation tenants under its belt.

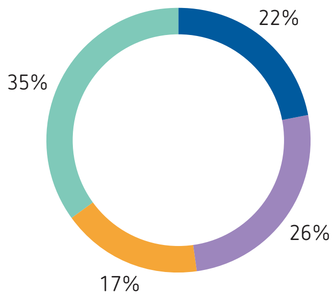
Being the first hotel in the Company's portfolio on the Mainland, the newly opened five-star Conrad Shenyang resides on the top 19 floors of the office tower with 315 rooms.

Commercial Segment Distribution (by Leased Floor Area)



109,307
N/A
N/A
N/A
844
95%
N/A
N/A
245

Commercial Segment Distribution (by Leased Floor Area)



101,960
131,723
N/A
60,222
2,001
94%
87%
N/A
145

PORTFOLIO KEY FACTS AND FIGURES

Mainland China Property

Brief on Properties

Parc 66, Jinan

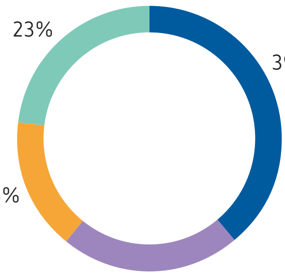
As one of the largest and most prestigious malls in Jinan, Parc 66 is a contemporary lifestyle hub offering over 350 stores of various genres, including global luxury, chic fashion, children's education and amusement, upscale cinema, boutique supermarket and international gourmet.

Center 66, Wuxi

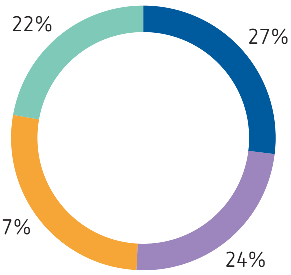
Located in the most prosperous commercial district in downtown Wuxi, the mall is the "Center" of luxury featuring close to 200 quality retail stores with a line-up of global luxury labels including Gucci, Burberry, Salvatore Ferragamo, Montblanc and more, while the two office towers at Center 66 are home to a number of multinational corporations looking for impeccable design and premium facilities.

- Fashion & Accessories
- Food & Beverage
- Lifestyle & Entertainment
- Others

Commercial Segment Distribution (by Leased Floor Area)



Commercial Segment Distribution (by Leased Floor Area)



Key Statistics

		Parc 66, Jinan	Center 66, Wuxi
Gross floor area (sq.m.)	Commercial	171,074	118,066
	Office	N/A	137,699
	Residential & Serviced Apartments	N/A	N/A
	Hotel	N/A	N/A
Number of car parking spaces		785	1,292
Occupancy rate (at year-end)	Commercial	98%	95%
	Office	N/A	65%
	Residential & Serviced Apartments	N/A	N/A
Number of shopping mall tenants (at year-end)		380	198

Commercial Office Residential & Serviced Apartments Hotel

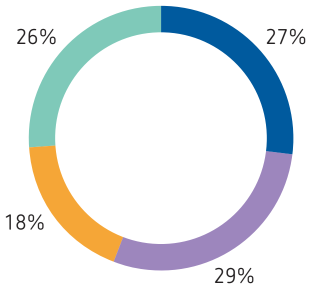
Riverside 66, Tianjin

Strategically located in the heart of Tianjin's Haihe Central Business District, Riverside 66 is the trend-setting lifestyle destination with over 250 international and local brands that offer a full-fledged modern consumer experience of shopping, dining, leisure and entertainment.

Olympia 66, Dalian

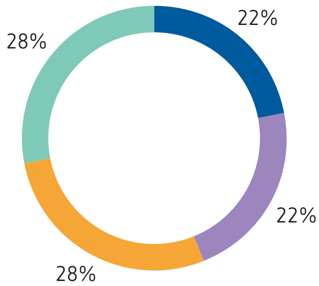
At the commercial hub of Dalian, Olympia 66 features prestigious local and international labels of fashion and accessories, jewelry and watches, beauty and digital products, as well as a stunning array of global culinary delights, advanced international entertainment and leisure facilities, a dynamic family zone and an innovative range of sports sites. The mall also has an ice-skating rink and the city's first Palace Cineplex cinema.

Commercial Segment Distribution (by Leased Floor Area)



152,831
N/A
N/A
N/A
800
89%
N/A
N/A
256

Commercial Segment Distribution (by Leased Floor Area)



221,900
N/A
N/A
N/A
1,214
82%
N/A
N/A
327

PORTFOLIO KEY FACTS AND FIGURES

Mainland China Property

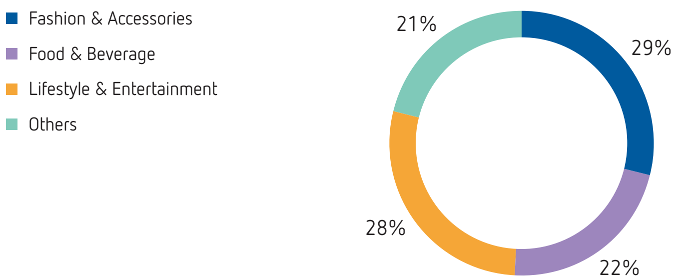
Brief on Properties

Spring City 66, Kunming

As the Company's first development project in the southwest region of mainland China opened in August 2019, Spring City 66 is home to a portfolio of prestigious international and local brands, offering a comprehensive suite of premium experiences in shopping, dining and entertainment.

With accessible location and quality suite of facilities and services, the office tower sets the new benchmark for the city and is a preferred choice among multinational corporates and leading domestic firms like Ernst & Young, Schneider, Haitong Securities and others.

Commercial Segment Distribution (by Leased Floor Area)



Key Statistics

Gross floor area (sq.m.)	Commercial	166,754
	Office	167,580
	Residential & Serviced Apartments	N/A
	Hotel	N/A
Number of car parking spaces		1,629
Occupancy rate (at year-end)	Commercial	82%
	Office	13%
	Residential & Serviced Apartments	N/A
Number of shopping mall tenants (at year-end)		228

Commercial Office Residential & Serviced Apartments Hotel

Hong Kong Property

Brief on Properties

Fashion Walk

Causeway Bay

Featuring numerous innovative concept stores and flagships of renowned global brands, Fashion Walk is a distinctive shopping destination spanning three main local areas, namely Paterson, Kingston and Food Street, offering the latest trends in fashion, gastronomy and lifestyle in a magnificent setting.

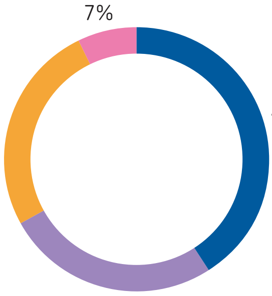
Hang Lung Centre

Causeway Bay

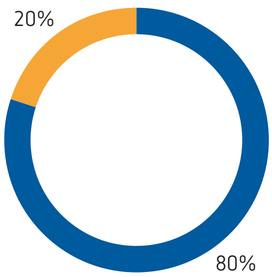
Offering a wide range of travel, fashion wholesale and medical services, Hang Lung Centre, a key element of Fashion Walk, is a retail and commercial complex enviably situated at the heart of Causeway Bay.

- Fashion & Accessories
- Food & Beverage
- Leisure & Entertainment (including Lifestyle)
- Bank
- Department Store
- Others

Commercial Segment Distribution (by Leased Floor Area) — Fashion Walk



Commercial Segment Distribution (by Leased Floor Area) — Hang Lung Centre



Key Statistics

		Fashion Walk	Hang Lung Centre
Gross floor area (sq.m.)	Commercial	31,072	8,777
	Office	N/A	22,131
	Residential & Serviced Apartments	7,935	N/A
Number of car parking spaces		N/A	126
Occupancy rate (at year-end)	Commercial	97%	100%
	Office	N/A	89%
	Residential & Serviced Apartments	89%	N/A
Number of shopping mall tenants (at year-end)		87	3

Commercial Office Residential & Serviced Apartments

PORTFOLIO KEY FACTS AND FIGURES

Hong Kong Property

Brief on Properties

Peak Galleria

The Peak

Ideally located atop the famous attraction in Hong Kong, Victoria Peak, Peak Galleria is renowned as a major tourist landmark. Having undergone a major facelift for two years, the mall has now reopened in August 2019 with a fresh new look and an enhanced tenant mix. Welcoming over 40 new tenants, many making their Hong Kong debuts, including the world's first Monopoly-themed pavilion, Monopoly Dreams Hong Kong, 37 Steakhouse & Bar and Mina House from Japan, Candylicious candy store from Singapore, and the popular Nayuki fruit tea and bakery café, Peak Galleria is a must-visit destination for local and tourists alike.

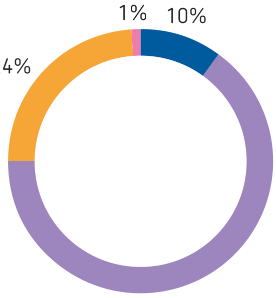
Kornhill Plaza

Quarry Bay

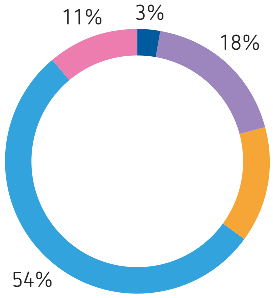
Conveniently located in the east of Hong Kong Island atop the MTR Tai Koo Station, Kornhill Plaza is positioned as a community mall serving nearby residents and workers with the largest Japanese department store in Hong Kong, AEON STYLE, with diversified food and beverage offerings, a cinema with 4DMX technology, and an all-in-one education hub.

- Fashion & Accessories
- Food & Beverage
- Leisure & Entertainment (including Lifestyle)
- Bank
- Department Store
- Others

Commercial Segment Distribution (by Leased Floor Area)



Commercial Segment Distribution (by Leased Floor Area)



Key Statistics

Key Statistics		Peak Galleria	Kornhill Plaza
Gross floor area (sq.m.)	Commercial	12,446	53,080
	Office	N/A	10,577
	Residential & Serviced Apartments	N/A	35,275
Number of car parking spaces		493	1,069
Occupancy rate (at year-end)	Commercial	91%	100%
	Office	N/A	100%
	Residential & Serviced Apartments	N/A	56%
Number of shopping mall tenants (at year-end)		45	117

Commercial Office Residential & Serviced Apartments

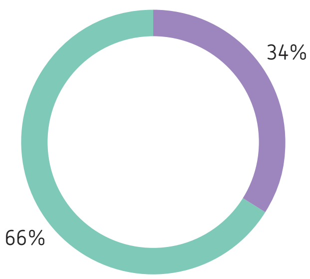
Standard Chartered Bank Building

Central

A prestigious Grade A building located in the heart of the financial district in Central and distinguished by its superb architectural design that melds the artistic with the practical – located adjacent to the MTR Central Station and the interchange station of the Island Line and Airport Express railway. With an unrivaled accessibility and a superb view of Victoria Harbour, the Standard Chartered Bank Building is an ideal office location.

It is home to Hang Lung Group and Hang Lung Properties and is the headquarters of Standard Chartered Bank (Hong Kong).

Commercial Segment Distribution (by Leased Floor Area)



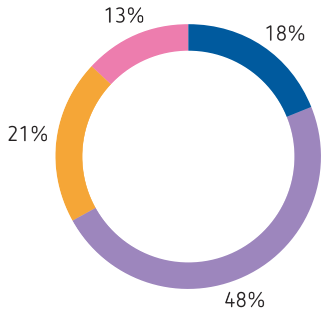
4,814
23,730
N/A
16
85%
100%
N/A
2

Grand Plaza

Mongkok

Enviably located right next to the MTR Mong Kok Station on Nathan Road, Grand Plaza houses two office towers and a commercial podium. It is home to a stellar line-up of international watch and jewelry brands, concept stores as well as fashion, lifestyle and sports labels. The dedicated dining floor features over 20 gourmet dining venues where international cuisine is served in stylish surroundings. The Grand Plaza Office Tower 1 showcases the region's most prominent healthcare centers. It has further been subtly zoned into beauty and semi-retail floors, providing visitors a one-stop leisure and lifestyle experience.

Commercial Segment Distribution (by Leased Floor Area)



20,905
31,251
N/A
40
100%
92%
N/A
26

PORTFOLIO KEY FACTS AND FIGURES

Hong Kong Property

Brief on Properties

Gala Place

Mongkok

Located at the junction of Dundas Street and Nathan Road with affluent footfall, Gala Place houses a diverse array of merchants. In addition to the 4,500-plus-square-foot Starbucks thematic store and the triple-story H&M full-concept flagship store, the largest in Kowloon, it also showcases an expertly curated portfolio of diversified services and products including chic fashion, outdoor gear, skincare and cosmetics, lifestyle products, audio and digital gadgets, beauticians, and a home design house as well as a smorgasbord of new and enticing food and beverage offerings, which together transform Gala Place into a hotspot for the trendy and fashionable in Mongkok. It is also equipped with a car park which offers close to 500 car parking spaces, providing a convenient, one-stop shopping experience for customers.

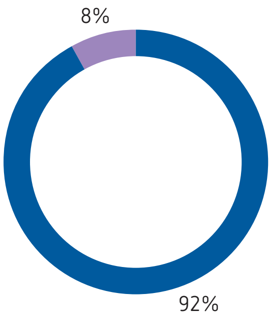
Amoy Plaza

Ngau Tau Kok

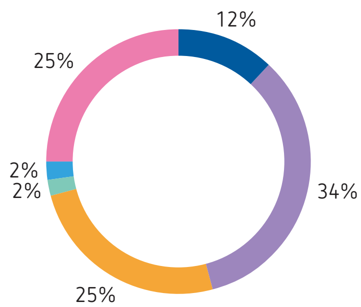
Conveniently located near the MTR Kowloon Bay Station, Amoy Plaza is an integrated mall in Kowloon East, comprising stores offering trendy fashions, beauty products and electronic gadgets. Together with more than 40 restaurants serving local and international cuisines, the mall offers a full selection of lifestyle experiences for nearby office workers and residents of Amoy Gardens.

- Fashion & Accessories
- Food & Beverage
- Leisure & Entertainment (including Lifestyle)
- Bank
- Department Store
- Others

Commercial Segment Distribution (by Leased Floor Area)



Commercial Segment Distribution (by Leased Floor Area)



Key Statistics

		Gala Place	Amoy Plaza
Gross floor area (sq.m.)	Commercial	7,454	49,006
	Office	30,205	N/A
	Residential & Serviced Apartments	N/A	N/A
Number of car parking spaces		478	620
Occupancy rate (at year-end)	Commercial	100%	98%
	Office	95%	N/A
	Residential & Serviced Apartments	N/A	N/A
Number of shopping mall tenants (at year-end)		2	253

Commercial Office Residential & Serviced Apartments

MAINLAND CHINA PROPERTY LEASING

Our Mainland portfolio recorded sequential growth in both retail sales and revenue, mainly resulting from strong luxury spending and new revenue streams from properties commencing operations in the reporting year.

Market Landscape

Despite slowing national GDP growth and broader market uncertainties due to the ongoing US-China trade dispute, the commercial leasing sector in mainland China had seen strong growth, largely attributable to the repatriation of spending, especially on high-end luxury items. Efforts on the part of international luxury brands to narrow the price gap between products sold on the Mainland and overseas, the depreciation of the Renminbi, and favorable central government policies, including a reduction in import duties, tightening of customs controls at points-of-entry, and the enactment of an e-commerce law to combat parallel imports, have contributed to the rise in the domestic consumption of luxury goods.

According to the Bain & Company Luxury Study released in November 2019, the global personal luxury goods market grew 4% to 281 billion euros in 2019, with mainland China's luxury market grew the most by 26% at constant exchange rates to reach 30 billion euros. Chinese customers accounted for 35% of the total value of luxury goods globally.

The office leasing sector, however, faced its own headwinds with over-supply and moderated demand, particularly among multinational corporations in many of the Mainland's first-and second-tier cities.

Business Overview

The sequential growth in retail sales and revenue of our mainland China portfolio in 2019 was largely due to the strategic positioning and continuing expansion of our properties across the nation. The brand value and emphasis on customer-centricity, service excellence, and relationship building has further strengthened the positioning of our developments. In our malls, the focus on deepening tenant engagement and customer loyalty through marketing initiatives and the introduction of HOUSE 66, our Customer Relationship Management (CRM) program, to a total of six projects in the year served as a significant pull factor in attracting interest from new quality brands and promoting expansions from our existing tenants.

For our office towers, stable growth was achieved despite softening demand. Situated at prime locations with state-of-the-art facilities, our properties remained the preferred choice among multinational corporations and industry leaders in the domestic market. The opening of Conrad Shenyang at Forum 66 in Shenyang, the first hotel in our mainland China portfolio, serves as a catalyst for growth at the adjacent mall and office tower at Forum 66 and will further strengthen their prime positioning.

2019 also signified a major milestone for Hang Lung with the commencement of construction at the Westlake 66 site in Hangzhou, the Company's 11th project in mainland China. Situated in the prime location of Bai Jing Fang in the Xiacheng District of Hangzhou, Westlake 66 will be developed into a landmark commercial complex comprising a world-class shopping mall, five Grade A office towers, and a luxury hotel. The project is scheduled for completion in phases from 2024, involving an estimated investment of around RMB 16 billion.

At the close of 2019, our mainland China portfolio had fared exceptionally well in the face of a competitive environment and economic jitters. It is well positioned to continue its growth trajectory with a focus on the core elements that have established it as a significant and successful presence in markets across the Mainland.

Year-on-Year Growth of Our Mainland China Leasing Revenue (in RMB terms)

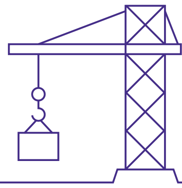
Overall
↑12%

Outside Shanghai
↑19%

Shanghai
↑8%

Gross Floor Area of Our Mainland China Investment Properties (excluding car park area)

Completed Properties
1.87 million square meters*



Properties under Development
1.36 million square meters#

* For a detailed breakdown of gross floor area of our completed properties, please refer to table "C. Major Investment Properties" on page 83

\# For a detailed breakdown of gross floor area of our properties under developments, please refer to table "A. Major Properties under Development" on page 80

Over 70 of the world's most coveted brands showcased exclusive, limited edition products and activities available only to the inner circle of luxury at the Home to Luxury Party

Plaza 66, Shanghai

Shopping Mall

Home to over 100 global luxury and dining brands in Shanghai, Plaza 66 experienced another stellar year of growth following the completion of the major asset enhancement program in 2017. During the reporting year, the mall further strengthened its positioning as the Home to Luxury with the enhancement of its portfolio of prestigious tenants, along with deepening engagement with its most loyal customers through the HOUSE 66 CRM program, leveraging positive market sentiment to push revenue to new heights.

In 2019, major reshuffling of brands on the basement and the third floors was implemented to improve tenant mix and sales performance, with the former being upgraded to feature top luxury brands while the latter was fine-tuned to be more designer fashion-label driven. A total of 22 new brands established their presence at the mall, including CELINE (Men's store)'s first standalone boutique on the Mainland, Byredo and Yves Salomon's debut in mainland China, Pronovias' Asia flagship store, and the first Stella McCartney Kids boutique in eastern China. The opening of regionally- or nationally-exclusive pop-up stores such as those by Balenciaga and Maison Kitsune also attracted interest from the market.

Since its launch in September 2018, the HOUSE 66 program has presented opportunities for customer engagement and tenant cooperation on new exciting levels with a positive impact on retail sales. Among the many privileges of membership for the mall's most distinguished patrons was an invitation to the exclusive annual Home to Luxury Party, which saw close to 3,000 guests enjoying a night of sophistication, entertainment, and luxury. Leveraging technology to enhance customer engagement, the mall made use of a WeChat mini-program as a personal party guide for guests to find their way through the maze of exciting activities, which included twice-hourly lucky draws and vending machines dispensing special gifts prepared by tenants.

Looking ahead, Plaza 66 will continue to enhance its customer-centric initiatives to maximize growth. Despite increased competition in the local market with new projects in both Pudong and Puxi, the well-established positioning of Plaza 66 provides a solid foundation to sustain its momentum with continuing efforts to attract new brands and tailor the tenant mix to keep pace with market demand, supported by HOUSE 66 to foster customer loyalty. The opening-up of additional retail space through leasable area optimization will provide room for further expansion. Plans are also in place to grasp opportunities for cross-promotion between retail and office tower tenants in order to maximize synergies.

Office Tower

The twin Grade A office towers continued to attract quality tenants from renowned multinational corporations and leading domestic firms in the fields of financial services, retail, and professional services. The occupancy rate remained strong amid uncertain economic conditions, standing at 93% at the end of 2019. New lettings had been secured from the professional services sector and the in-house expansion of major anchor tenants like the LVMH Group. Pressure on rental prices is set to continue into 2020 and the effects of decentralization, particularly in the more price-conscious tenant market, will undoubtedly be felt despite limited office supply in Jing'an District. Nonetheless, being the landmark mixed development in Shanghai and having completed an enhancement of buildings and facilities in 2017, Plaza 66 shall maintain its competitive edge.

Grand Gateway 66, Shanghai

Shopping Mall

Grand Gateway 66 maintained its leading position in the market despite undergoing a major facelift, which commenced in late 2016 and is making good progress. The phased reopening of the shopping mall (the North Building in the fall of 2018 and the basement in mid-2019), has seen new brands taking up residence, leveraging buoyant market sentiment, resulting in increased footfall and retail sales since mid-2019. Retail sales achieved double-digit growth of 17% in the second half of 2019 versus first-half figures, while the occupancy rate rose to 91% with the addition of luxury anchor tenants in the South Building including Louis Vuitton, Gucci, Tiffany & Co., Bottega Veneta, and CELINE.

Grand Gateway 66 has also shaped its tenant mix to fit a contemporary luxury demographic. Significant effort has been made to acquire new unique merchants including the Starbucks Reserve Princi Bakery Café, which opened its first and only outlet in China in February 2019, as well as 15 international brands in the new cosmetic zone on the basement, and leading fashion retailers like Zara and i.t that are popular among younger customers.

Meanwhile, an increasing number of top luxury brands will establish their presence at the mall in 2020. Together with the launch of HOUSE 66 in December 2019 and the addition of a host of contemporary designer brands, the outlook for Grand Gateway 66 is promising in the long run.

The Grand Gateway 66 mall's entire Asset Enhancement Initiative will be completed in the third quarter of 2020

Palace 66 is a meeting point for a broad cross-section of the Shenyang population

Palace 66, Shenyang

Healthy performance was recorded in 2019, thanks to Palace 66's efforts in successfully positioning itself as the leading contemporary lifestyle mall on the Zhongjie Lu in Shenhe District in Shenyang. Retail sales and occupancy rate advanced 20% and seven points respectively as a result of enhancing engagement with tenants, and identifying innovative ways to help them promote their businesses.

Enrichment of the mall's tenant mix with the combination of new acquisitions including Air Jordan and FILA, and the optimization of the kids' zone helped position the mall to suit the tastes and needs of the market. Existing tenant upgrades also demonstrated a high level of confidence in the mall as a meeting point for a broad cross-section of the city's population.

Palace 66 will focus its attention on further refinement of its tenant mix in the areas of premium cosmetics brands and ladies' fashion and accessories. Reputable brands will also be acquired to fit the evolving needs of customers. With the newly integrated CRM systems combining MALLCOO, IMS and SmartPOS, the mall will be able to leverage the data captured by the system concerning customer preferences, interests, and shopping behavior to improve the overall customer experience.

Forum 66, Shenyang

Shopping Mall

The overall performance of the mall has been enhanced by large-scale city-level investments that raised the profile of Shenyang, but the competition in the local retail market continued to affect growth in footfall and spending. Efforts to reshuffle the tenant portfolio and diversify the trade mix with a focus on the needs of families have yielded positive results with the addition of new food and beverage, services, and entertainment outlets. Retail sales and the occupancy rate increased by 6% and one point respectively.

Marketing events during the course of the reporting year also enhanced recognition among current and prospective customers.

The opening of Conrad Shenyang in the third quarter of 2019 is expected to contribute to an increase in traffic and sales at the mall in the year ahead. Upcoming major tenant additions such as Burberry, Gucci Timepiece, and Huawei will continue to enhance the mall's competitive advantage.

Office Tower

With the in-house expansion of Bank of China as well as the addition of various quality tenants such as ANA, 360, OSSTEM, and Shengheng Law Firm this year, market acceptance and recognition of Forum 66's positioning as a much sought-after address among multinational corporations and reputable domestic firms in Shenyang has been further reinforced. The opening of Conrad Shenyang presents opportunities for continued upgrading of the office tower's tenant mix as well as growth in occupancy. Engagement with tenants will be a priority in the coming year with measures to actively seek input on improving services and addressing customer needs.

Hotel

Officially opened in September 2019, the 315-room, five-star Conrad Shenyang residing on the top 19 floors of the Office Tower, is the first hotel in our Mainland portfolio. Conveniently located in the city center, the hotel is designed with the highest level of guest services, state-of-the-art amenities, and innovative dining options, raising the bar of modern luxury in hospitality for business and leisure guests.

Conrad Shenyang's revenue met targets with a healthy split between rooms at 43% of revenue, food and beverage at 54%, and other sources representing 3%. To date, the guestrooms business has seen good support from the leisure segment at 62% of room nights sold, corporate guests at 30%, and group business clients at 8%. Although the overall market remains somewhat challenging, the opening of Conrad Shenyang realizes Hang Lung's determination to further strengthen the luxury positioning of Forum 66 as the best retail, dining, lifestyle, and business center in northeast China.

The year-end Luminous Winter marketing campaign achieved significant increases in footfall and retail sales

Parc 66, Jinan

Parc 66 is one of the largest and most prestigious malls in Jinan. Despite intensifying competition from other shopping malls in the city and neighboring cities, it remains the first choice for mid-to-upmarket brands, capitalizing on the competitive advantage of its location and positioning in the market.

During the reporting year, significant effort was directed towards upgrading the tenant portfolio and zoning with a good mix of new contemporary luxury brands including FOSS and Karl Lagerfeld, and new flagship stores including Tommy Hilfiger, Starbucks Reserve, and Heytea Lab (which made their debuts in Shandong Province) on the first floor, while the upper floors featured themed zones including a sports zone housing leading brands such as Nike Beacon and adidas MEGA, and a family and children zone on the fourth and fifth floors where the newly opened Toys "R" Us was situated. Enriched food and beverage offerings were added to the seventh floor, which is the top floor.

With the high development potential of Jinan, the outlook is optimistic for Parc 66. The mall will continue to upgrade its tenant mix, with major upcoming tenants such as Lululemon, Under Armour and various international cosmetics brands. The planned revamp of the first floor will introduce more varieties of international fashion brands to our customers. Integrated marketing initiatives leveraging themed marketing campaigns will drive cross-category sales and boost online-to-offline conversion. Meanwhile, the expansion of HOUSE 66 will continue to improve sales and promote customer loyalty while curating one-of-a-kind Hang Lung branded experiences.

The third YAO Music Festival at Parc 66 collaborated with close to 100 cross-category tenants, successfully heightening the mall's status as Jinan's contemporary lifestyle hub

More international luxury brands are establishing their presence at Center 66

Center 66, Wuxi

Shopping Mall

Strong performance was recorded at Center 66 with the mall benefiting from an enriched tenant mix and improved the occupancy rate. Retail sales improved year-on-year with international luxury brands such as Gucci migrating to Center 66, and the opening of popular brands such as Heytea and Lady M. The occupancy rate improved with the opening of a new cinema and the migration of luxury brands. Marketing events also helped to boost footfall. In particular, the LEGO campaign in conjunction with the Lunar New Year celebrations saw a collaboration with LEGO and over 50 tenants to provide themed exhibitions and workshops, with exclusive gifts and promotions. Footfall soared 37% during the campaign period and retail sales at the mall increased by 32%.

Looking to 2020, the migration of top luxury brands such as CELINE, and the upgrading of the overall tenant mix is expected to continue. The mall will also benefit from the opening of the intercity express railway and a future Metro line, which is expected to commence operations by the end of 2023. Leveraging targeted promotions and CRM systems, we expect that more customized and interactive engagement with customers can be realized.

Office Tower

Center 66's leading position in the Wuxi office market was maintained amidst a challenging year due to economic uncertainty. The opening of Office Tower 2 in August 2019 presented opportunities for Center 66 to attract new, quality, sizable tenants such as Taikang Life Insurance, Kuaishou, and Sichuan Trust. Various existing tenants such as Huawei and PingAn Securities also expanded at Office Tower 1. Tenant mix continued to be optimized, comprising some 46% multinational corporations and leading domestic companies.

In the face of aggressive leasing strategies from competitors, it will be necessary to reinforce the image and positioning of Center 66, as well as its competitive advantage. Center 66 will continue to secure quality tenants across different industries for long-term sustainable growth.

The Starbucks Reserve flagship store, situated at the century-old heritage building, Zhejiang Xingye Bank, is a stone's throw from Riverside 66

Riverside 66, Tianjin

The solid and appealing tenant portfolio at Riverside 66 has had the chain effect of attracting similar quality tenants, which has in turn provided the basis for stable growth amidst a market that was lagging behind national averages in terms of GDP growth and economic buoyancy during the reporting year. The unveiling of the Starbucks Reserve flagship store at the historic Zhejiang Xingye Bank Building served as a magnet for both footfall and leasing interest while the mall welcomed other new anchor tenants such as adidas, SWC, FILA and LEGO. Retail sales increased by 5% while the occupancy rate fell one point to 89% in 2019 as tenant mix refinement continues. The completion of improvement works at the Binjiang Dao Pedestrian Street also helped to direct traffic to the mall, and marketing events played a role in raising the mall's profile and appeal.

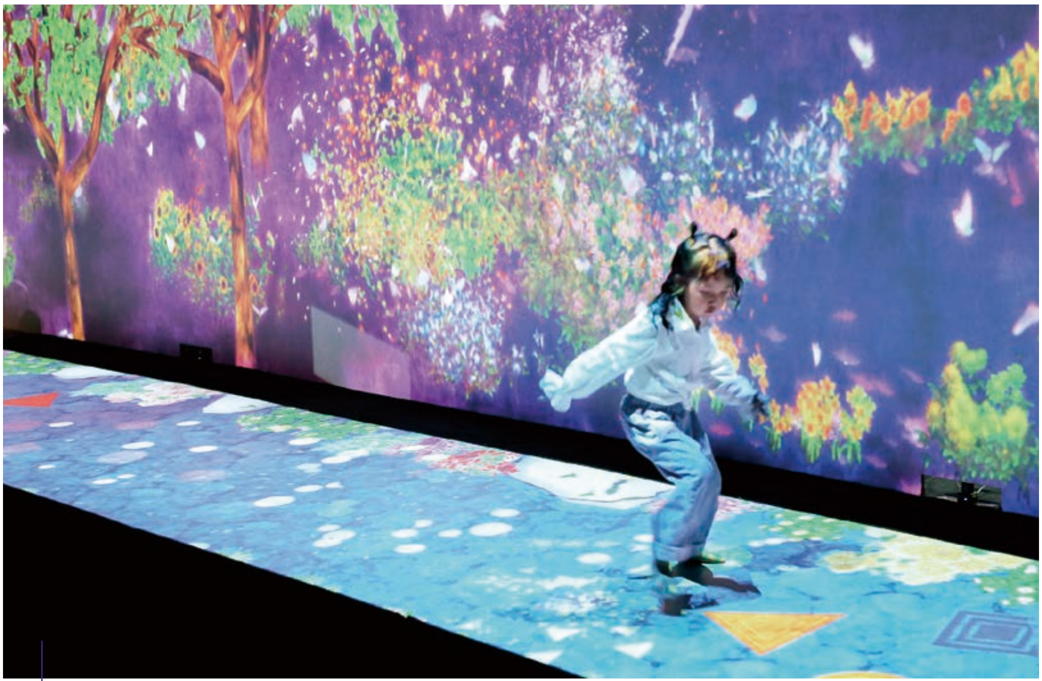
Looking ahead, Riverside 66 will continue to upgrade the mall's food and beverage offerings and rezone other floors and boost footfall along with the Tianjin government's initiative to upgrade Heping Road. The launch of HOUSE 66 in the second quarter of 2020 will also present new opportunities to enhance the customer experience and boost customer loyalty through relationship building and targeted collaborations with tenants. Existing MALLCOO members will be transferred to HOUSE 66 with several special events to generate interest and growth in membership.

Olympia 66, Dalian

Against flat economic and population growth in Dalian, Olympia 66 achieved remarkable growth in both revenue and retail sales during the reporting year. The occupancy rate increased three points as a result of concerted efforts to create a complementary tenant mix comprising popular contemporary lifestyle brands and food and beverage concepts. The mall's established anchor tenants, Palace Cineplex and Ole' Supermarket, have benefited from additional footfall generated by the opening of the CNSC duty free concept flagship store in June 2019 and the NIKE Kicks Lounge in October 2019, both of which achieved high retail sales.

To sustain further growth in coming years, the positioning of Olympia 66 will be upgraded from a regional lifestyle hub to a regional hub with both lifestyle and luxury elements. Top international luxury brands such as Balenciaga, Bvlgari, CELINE, and Saint Laurent will be introduced with the opening of the Level 1 Atrium and Level 1 of the West Zone starting from 2020, along with plans to upgrade existing food and beverage offering with the introduction of new brands and cuisines. With the launch of HOUSE 66 in April 2020, a more engaging customer experience and improved customer loyalty is expected to be achieved. Footfall at the mall is also expected to increase following the completion of the tunnel that connects the mall and the subway station scheduled by early 2021.

Olympia 66's HI YA B.Duck marketing campaign involved 146 tenants and was hugely successful in boosting retail sales and footfall



The popular teamLab event at Spring City 66

Spring City 66, Kunming

Shopping Mall

The opening of the mall at Spring City 66 in late August 2019, our first project in the southwest region of mainland China, received an overwhelming response from the market. Positioned as a premium lifestyle center showcasing the best international labels and luxury brands, Spring City 66 was 91% leased or had rental contracts being finalized as at the end of 2019 and is home to a portfolio of prestigious international brands including Gucci, Jimmy Choo, Qeelin, GGDB, Blancpain, Chopard, IWC, and Jaeger-LeCoultre. The world-renowned teamLab exhibition, being hosted for the first time in China's southwest region at Spring City 66, is drawing crowds from across the Yunnan region.

Looking to 2020, the mall targets to expand its offering with brands that complement the luxury portfolio. Upcoming major tenant additions include Piaget, Bottega Veneta, and Dior Beauty.

Office Tower

The Spring City 66 Office Tower, which was opened in late August 2019, stands as Kunming's premium location and offers the unique quality combination of design, amenities, and services for which Hang Lung is known throughout mainland China. The accessible location and suite of facilities and services gives the office tower the edge in capitalizing on upgrade demand as well as in establishing itself as the home to multinationals and prestigious domestic enterprises seeking to grow their presence in Kunming. Despite the overall softened office market, the occupancy rate at the office tower is set on a stable growth trajectory and various multinational corporations and leading domestic firms like Ernst & Young, Schneider, Hitachi, FILA, JD, 51Job, Haitong Securities, among others, have confirmed their leases, reflecting the premium positioning and quality of the office tower.

HONG KONG PROPERTY LEASING

In Hong Kong, the performance of our core leasing properties demonstrated resilience despite the adverse impact of the social unrest.

Market Landscape

During the reporting year, overall retail performance, already weakened by the drop in domestic spending due to the US-China trade dispute, took a battering amidst the prolonged social unrest which created disruptions to inbound tourism and consumption-related activities. Hong Kong's retail sales dropped 11.1% in value year-on-year to HK$431.2 billion* in 2019. Retailers situated in districts popular with tourists directly impacted by the demonstrations such as Causeway Bay and Mongkok saw even sharper declines in sales.

Similarly, the overall Grade A office leasing demand was weakened by the challenging macroeconomic environment and the social unrest in Hong Kong, with some companies deferring their expansion plans. During the reporting year, office rents declined and vacancy rates in Hong Kong increased.

Business Overview

Our balanced portfolio comprises shopping malls tailored to the needs of a diverse group of consumers as well as office buildings at prime locations where quality semi-retail companies and local key industry players are our key tenants. This has enabled us to maintain stable occupancy rates and leasing revenues in 2019. Our focus on refining the trade mix by recruiting unique and attractive concepts across the portfolio coupled with enhanced engagement with shoppers allows us to provide a better and more customized consumer experience, which is key to lifting spending and footfall in times of tough retail sentiment.

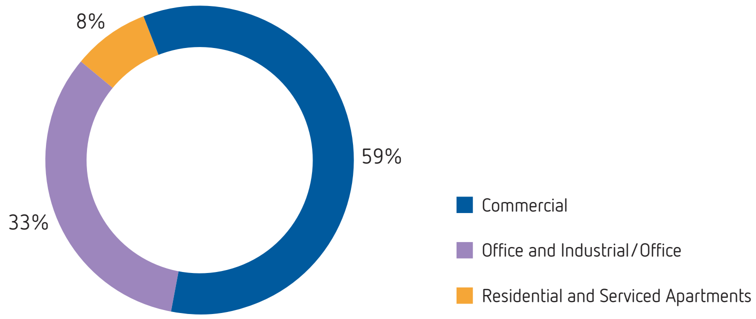
* Source: Census and Statistics Department

Year-on-Year Growth of Our Hong Kong Leasing Revenue and Occupancy

	Leasing Revenue	Occupancy Rate#
Commercial	↑2%	98%
Office and Industrial/Offices	↑2%	93%

All occupancy rates stated therein were as of December 31, 2019

Distribution of Revenue of Our Hong Kong Property Leasing Portfolio in 2019



Fashion Walk

Fashion Walk presents a fashionable neighborhood with an exciting medley of the hottest shopping, dining, and entertainment offerings in town. Over 100 renowned global brands and 40 flagships and concept stores are featured, where fashion aficionados discover the latest trends in a unique indoor and outdoor environment. Paterson Street has completed its makeover and been transformed into a new beauty boulevard with the introduction of exclusive boutiques such as the Chanel Beauty Studio, the Asia flagship of GOUTAL PARIS with a beautifully-designed Sensory Lounge, the KÉRASTASE Hair Spa by La Vie, and the flagship of SkinCeuticals.

Fashion Walk is the destination for trendsetters

The leasing performance of our Central portfolio remained solid in 2019

A select collection of new fashion labels and food and beverage outlets was also added to the Fashion Walk tenant portfolio, including much heralded firsts such as the debut of the world's largest seafood chain restaurant, Red Lobster. Special collaborations with market leaders ensured the continuation of marketing events and promotions for which Fashion Walk is famed. Impactful customer experiences were curated with the hosting of the Coco Flash Club pop-up store by Chanel Beauty, the global launch of Star Wars' Triple Force Friday in collaboration with Disney, and the global launch of Polaroid Lab by Polaroid Original. Celebrity appearances also drew enthusiastic crowds with visits by David Beckham, Manchester City Football Club, Laurinda Ho and Leanne Li, among many others.

Joint mall promotional campaigns, such as Fortune Walk, which was held in collaboration with Sesame Street, were successful in increasing both footfall and retail sales during the promotional period. With its effective use of online-to-offine marketing strategies, the Fortune Walk campaign garnered three awards at the PR Awards 2019, being named Campaign of the Year – Silver; Best Result-driven Campaign – Silver; and Best Experiential Campaign – Bronze.

As a key element of Fashion Walk, Hang Lung Centre continues to be a highly popular destination for leading operators in the travel, fashion wholesale and medical sectors with stable occupancy rates.

Central Portfolio

Our Central portfolio which comprises four office buildings including Standard Chartered Bank Building, 1 Duddell Street, Printing House and Baskerville House, continued to deliver stable rental growth in 2019. Mott 32, Duddell's, Foxglove, Wolfgang's Steakhouse, Sushi Sase, and Sushi Sase Hanare are some of the unique and renowned dining concepts that we have in our portfolio. Our office leasing performance remained solid with high occupancy rates throughout the reporting year.

Monopoly Dreams Hong Kong is one of the new tenants making its debut in Hong Kong at Peak Galleria

Kornhill Plaza remained fully let at the end of 2019

Peak Galleria

Peak Galleria unveiled a fresh new look and an enhanced tenant mix in August 2019 following the completion of a two-year extensive Asset Enhancement Initiative. It is poised to be a must-visit destination for both locals and international travelers. The occupancy rate stood at 91% as of December 2019, taking into account withdrawals and delays from prospective opening tenants. However, the occupancy rate is expected to increase as momentum builds, with food and beverage tenants in particular reporting highly satisfactory revenues as local consumers seek high-quality dining experiences in one of the territory's best-loved scenic venues. In addition, over 40 new tenants including a number of first-in-Hong Kong food and beverage offerings such as 37 Steakhouse & Bar and Mina House from Japan, and Nayuki fruit tea and bakery café, have been introduced to Peak Galleria, while other debut also helped draw footfall among young families, such as the popular Monopoly Dreams Hong Kong, which is the world's first Monopoly-themed pavilion.

Kornhill Plaza

As a community mall serving nearby residents and office workers with the largest Japanese department store in Hong Kong, AEON STYLE, diversified food and beverage offerings, a cinema with 4DMX technology, and an all-in-one education hub, Kornhill Plaza recorded sound performance and remained fully let at the end of 2019.

Looking ahead, continuing refinement of the tenant mix will keep the mall in tune with the needs and expectations of local residents. This will stimulate retail demand and create additional revenue streams. Communication channels with tenants and customers will also be enhanced to better understand changes in retail sentiment and consumer behavior.

Mongkok Portfolio

Shopping Malls

Mongkok was one of the areas that was most severely affected by the prolonged social unrest. However, our malls in this area, Gala Place, Grand Plaza, and Hollywood Plaza, demonstrated resilience with stable occupancy rates due to the fine-tuning of tenant mix, which further strengthened their positioning as fashion, lifestyle, and dining hubs.

Looking ahead, the malls will continue to strengthen their fashion and lifestyle and food and beverage appeal through further enhancement of tenant mix. Digital platforms will be more broadly used to deepen consumer engagement and raise brand awareness.

Office Towers

Stable occupancy rates were achieved in 2019 amidst the challenging socio-economic environment. During the reporting year, we were able to maintain stable rental income by optimizing the usage of the premises. At Gala Place, the eighth floor was converted from a typical office floor to a food and beverage hub which offers unique dining experiences, and new semi-retail tenants were recruited to generate higher rental income. Grand Plaza, which is home to players in the medical field, continued to attract more medical tenants such as the Quality Healthcare Specialty Centre, with existing medical tenants expanding their businesses in 2019.

Going forward, more effort will be made to consolidate the trade mix into sectors that are more resilient to changes in the macroeconomic environment. Upon the completion, in the first quarter of 2020, of the Asset Enhancement Initiative to convert more floors for medical use at Grand Plaza, its appeal to medical players will be increased and is expected to attract more tenants from this sector. There are also plans to actively recruit new tenants from the international education, emigration consultancy, and international property sectors.

Amoy Plaza

The popular Kowloon East mall maintained solid performance due to the strategic reshuffling of its tenant mix and interactive marketing campaigns. As a shopping mall focused on daily life and necessities, which are more resilient to socio-economic upheaval, Amoy Plaza had enriched its offering in the provision of food and beverage, grocery shopping, and education outlets, with new tenants recruited such as Watami, MOS Café, DS Groceries, Bricks Exchange, Babington, Dunn's Education, and Techbob Academy, and has successfully maintained the appeal of the mall and stabilized footfall.

Amoy Plaza will continue to enhance its attractiveness to families with the introduction of tenants from the entertainment, lifestyle, food and beverage, education, and kidult and toy segments. Looking to the opening of the East Kowloon Cultural Centre in 2021, the mall is in a position to benefit from additional traffic. Keeping abreast of changing market dynamics, customer demands, and local demographics will be key to shaping the tenant mix for the future.

Grand Plaza is home to professionals in the medical field

The enhanced range of offerings at Amoy Plaza has successfully maintained its appeal to customers

HONG KONG PROPERTY SALES AND DEVELOPMENT

Depending on market conditions, we will continue to sell down residential units in Hong Kong and look for opportunities to unlock more value from our property portfolio through the disposal of non-core properties.

After a strident start to the year with rising prices and sales volume in the first half of 2019, Hong Kong's residential property market began to slow in the third quarter with demand impacted by socioeconomic conditions. Sentiment was influenced by the ongoing US-China trade dispute and the social unrest in Hong Kong but had been buoyed by low interest rates. The luxury residential market, however, has remained largely resilient with capital values generally flat while buyers adopted a wait-and-see stance.

Property Sales

Our property sales business in Hong Kong focuses primarily on luxury residential projects. One duplex unit at The Long Beach (a high-end development of eight towers of apartments in southwest Kowloon offering spectacular sea view), and nine houses at 23-39 Blue Pool Road (a development of 18 luxurious semi-detached houses in one of Hong Kong's most exclusive locations), remain available for sale.

23-39 Blue Pool Road won the International Architecture Award from The Chicago Athenaeum 2019

During the reporting year, one unit at 23-39 Blue Pool Road was sold. We also disposed of certain non-core investment properties in Hong Kong, including 111 car parking spaces at Laichikok Bay Garden.

Property Development

Two redevelopment projects had commenced construction in Hong Kong during the reporting year.

In collaboration with our parent company, HLG, we began a redevelopment project at 226-240 Electric Road in North Point. The site will be developed into a Grade A office tower with a gross floor area of 9,754 square meters inclusive of a retail area on the podium floors. The project is expected to be completed in 2022.

In April 2019, the entire ownership of the Amoycan Industrial Centre in Ngau Tau Kok was consolidated through the Compulsory Sale for Redevelopment Order. The site will be redeveloped into residential units for sale with commercial use on the podium floors, taking advantage of an excellent location close to MTR Kowloon Bay Station and the future East Kowloon Cultural Centre. The project is slated for completion in 2023.

We will continue to consider strategic disposal opportunities for our residential properties, which are well-positioned in the luxury segment. Together with the two redevelopment projects which are targeted for completion in 2022 and 2023 respectively , we remain optimistic about our overall performance in the years ahead.

OUTLOOK

Despite uncertainties caused by the US-China trade tensions, Brexit, RMB depreciation, the social unrest in Hong Kong and the recent outbreak of the novel coronavirus, we maintain an optimistic view towards our property leasing business as a whole. While the current epidemic would have an adverse impact on our near-term financial performance, revenue growth in the medium to long term will be fueled by the Mainland retail sector and contributions from new properties.

Our Mainland portfolio will continue to be benefitted from the repatriation of luxury spending as the portfolio has gathered pace in bolstering its roll of luxury tenants. The opening of new shops by luxury brands will continue well into 2020 and beyond, in both existing properties including Plaza 66 and Grand Gateway 66 in Shanghai, Center 66 in Wuxi, and Olympia 66 in Dalian, as well as extending to new projects such as Spring City 66 in Kunming and Heartland 66 in Wuhan.

The roll-out of our nationwide CRM program, HOUSE 66, provides further opportunities for collaboration with tenants on the strength of quality data mining and determination to become increasingly customer focused.

We commit ourselves to staying ahead in technology-assisted customer experience, improving service in malls, car parks and other touchpoints as a means to more directly engage with our shoppers, office workers, and their clients.

Depending on market conditions, we will continue to sell down residential units in Hong Kong and look for opportunities to unlock more value from our property portfolio through the disposal of non-core properties.

On the property development side, work on the two redevelopment projects in Hong Kong has already commenced. On the Mainland, luxurious serviced apartments in our four mixed-use projects are intended for sale. We have begun the construction work for serviced apartments in our Wuhan project, and those on our Wuxi, Kunming and Shenyang projects are set to start in phases.

As our parent company HLG is celebrating its 60 years of establishment in 2020, the Company will, together, continue to look for opportunities to expand our portfolio in Hong Kong and mainland China, ultimately delivering sustainable value to our shareholders and stakeholders.

NEW PROJECTS UNDER DEVELOPMENT

Mainland China

Heartland 66, Wuhan

Conveniently located on Jinghan Avenue in the bustling Qiaokou District, the commercial and business heart of Wuhan, with mass transit railway accessibility, this large-scale commercial development will house a premier shopping mall, a 61-story Grade A office tower and serviced apartments.

Heartland 66 has attained the "Precertification under Leadership in Energy and Environmental Design (LEED) for Core and Shell Development – Gold Level" issued by the U.S. Green Building Council.

Location	Total gross floor area*
Jinghan Avenue, Qiaokou District, Wuhan	460,000 square meters
Main Usage	**Expected year of completion**
	2020 onwards

Center 66, Wuxi (Phase 2)

Phase 2 of the development comprises two towers of luxury serviced apartments and a boutique hotel. Phase 1 comprises a shopping mall (completed and opened in September 2013), and Office Tower 1 and 2 (opened in October 2014 and September 2019 respectively).

Location	Total gross floor area*
Jiangkang Lu, Liangxi District, Wuxi	108,982 square meters
Main Usage	**Expected year of completion**
	2023 onwards

*Including gross floor area above and below ground (excluding car park area)

Commercial Office Residential & Serviced Apartments Hotel

Spring City 66, Kunming

Situated at the heart of Kunming, Spring City 66 is seamlessly connected to two Metro lines. The remaining development comprises a five-star hotel and luxury serviced apartments. The project's shopping mall and office tower were opened in late August 2019.

Location
Dongfeng Dong Lu/Beijing Lu, Panlong District, Kunming

Total gross floor area*
98,054 square meters

Main Usage

Expected year of completion
2023 onwards

Westlake 66, Hangzhou

Westlake 66 is the Company's 11th large-scale commercial development on the Mainland, situated at a prime location in the city. The development comprises a world-class shopping mall, five Grade A office towers, and a luxury hotel.

Location
Bai Jing Fang Lane, Xiacheng District, Hangzhou

Total gross floor area*
194,100 square meters

Main Usage

Expected year of completion
2024 onwards

NEW PROJECTS UNDER DEVELOPMENT

Mainland China

Forum 66, Shenyang

The remaining phases of the development is made up of offices, apartments and a retail area.

Location Qingnian Da Jie, Shenhe District, Shenyang	**Total gross floor area*** 502,660 square meters
Main Usage	**Expected year of completion** 2024 onwards

*Including gross floor area above and below ground (excluding car park area)

Commercial Office Residential & Serviced Apartments Hotel

Hong Kong

Electric Road Redevelopment Project

Jointly developed with HLG, the site will be redeveloped into a Grade A office tower with a retail area on the podium floors.

Location 226-240 Electric Road, IL 1618	**Total gross floor area** 9,754 square meters
Main Usage	**Expected year of completion** 2022

Amoycan Industrial Centre Redevelopment Project

The site will be redeveloped into residential units for sale with commercial use on the podium floors.

Location 7 Ngau Tau Kok Road, NKIL 1744	**Total gross floor area** 16,226 square meters
Main Usage	**Expected year of completion** 2023

MAJOR PROPERTIES OF THE GROUP

A. Major Properties under Development

At December 31, 2019

	Location	Site Area (sq.m.)	Main Usage	Total Gross Floor Area (sq.m.)	Stage of Completion	Expected Completion Year
MAINLAND CHINA						
WUHAN						
Heartland 66	Jinghan Avenue, Qiaokou District	82,334	Commercial, Office, Residential & Serviced Apartments	460,000	Superstructure	2020 onwards
WUXI						
Center 66 (Phase 2)	Jiankang Lu, Liangxi District	16,767	Residential & Serviced Apartments, Hotel	108,982	Foundation	2023 onwards
KUNMING						
Spring City 66	Dongfeng Dong Lu/ Beijing Lu, Panlong District	56,043	Residential & Serviced Apartments, Hotel	98,054	Superstructure	2023 onwards
HANGZHOU						
Westlake 66	Bai Jing Fang Lane, Xiacheng District	44,827	Commercial, Office, Hotel	194,100	Planning	2024 onwards
SHENYANG						
Forum 66	Qingnian Da Jie, Shenhe District	92,065	Commercial, Office, Residential & Serviced Apartments	502,660	Foundation	2024 onwards
HONG KONG						
NORTH POINT						
Electric Road Redevelopment Project (HLP held: 66.7%)	226-240, Electric Road, IL 1618	650	Commercial, Office	9,754	Demolition	2022
NGAU TAU KOK						
Amoycan Industrial Centre Redevelopment Project	7, Ngau Tau Kok Road, NKIL 1744	1,923	Commercial, Residential & Serviced Apartments	16,226	Ground Investigation	2023

All the above properties are wholly owned by HLP unless otherwise stated

Commercial Office Residential & Serviced Apartments Hotel

B. Residential Properties Completed for Sale

At December 31, 2019

	Location	Site Area (sq.m.)	Total Saleable Area (sq.m.)	No. of Residential Unit for Sale	No. of Car Parking Spaces for Sale
HONG KONG					
23-39 Blue Pool Road	23-39 Blue Pool Road, IL 5747	7,850	3,835	9	18
The Long Beach	8 Hoi Fai Road, KIL 11152	20,200	136	1	–

All the above properties are wholly owned by HLP

C. Major Investment Properties

At December 31, 2019

			Total Gross Floor Area (sq.m.)			
	Location	Lease Expiry	Commercial	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
CENTRAL						
Printing House	6 Duddell Street, IL 339	2848	1,709	5,980	–	–
1 Duddell Street	1 Duddell Street, IL 7310	2848	2,340	6,616	–	–
Baskerville House	22 Ice House Street, IL 644	2880	1,473	3,379	–	–
Standard Chartered Bank Building	4-4A Des Voeux Road Central, Sections A&B of ML 103	2854	4,814	23,730	–	16
CAUSEWAY BAY AND WAN CHAI						
Hang Lung Centre	2-20 Paterson Street, IL 524 & IL 749	2864	8,777	22,131	–	126
Fashion Walk	Paterson Street, Houston Street, Great George Street, Cleveland Street, Kingston Street, Gloucester Road, ML 231 & ML 52, IL 469 & IL 470	2842, 2864 & 2868	31,072	–	7,935	–
Shui On Centre	15/F-28/F, 6-8 Harbour Road, IL 8633	2060*	–	16,313	–	42
HAPPY VALLEY						
23-39 Blue Pool Road	Unit 25B, 35B 23-39 Blue Pool Road, IL 5747	2090	–	–	855	4

C. Major Investment Properties

At December 31, 2019

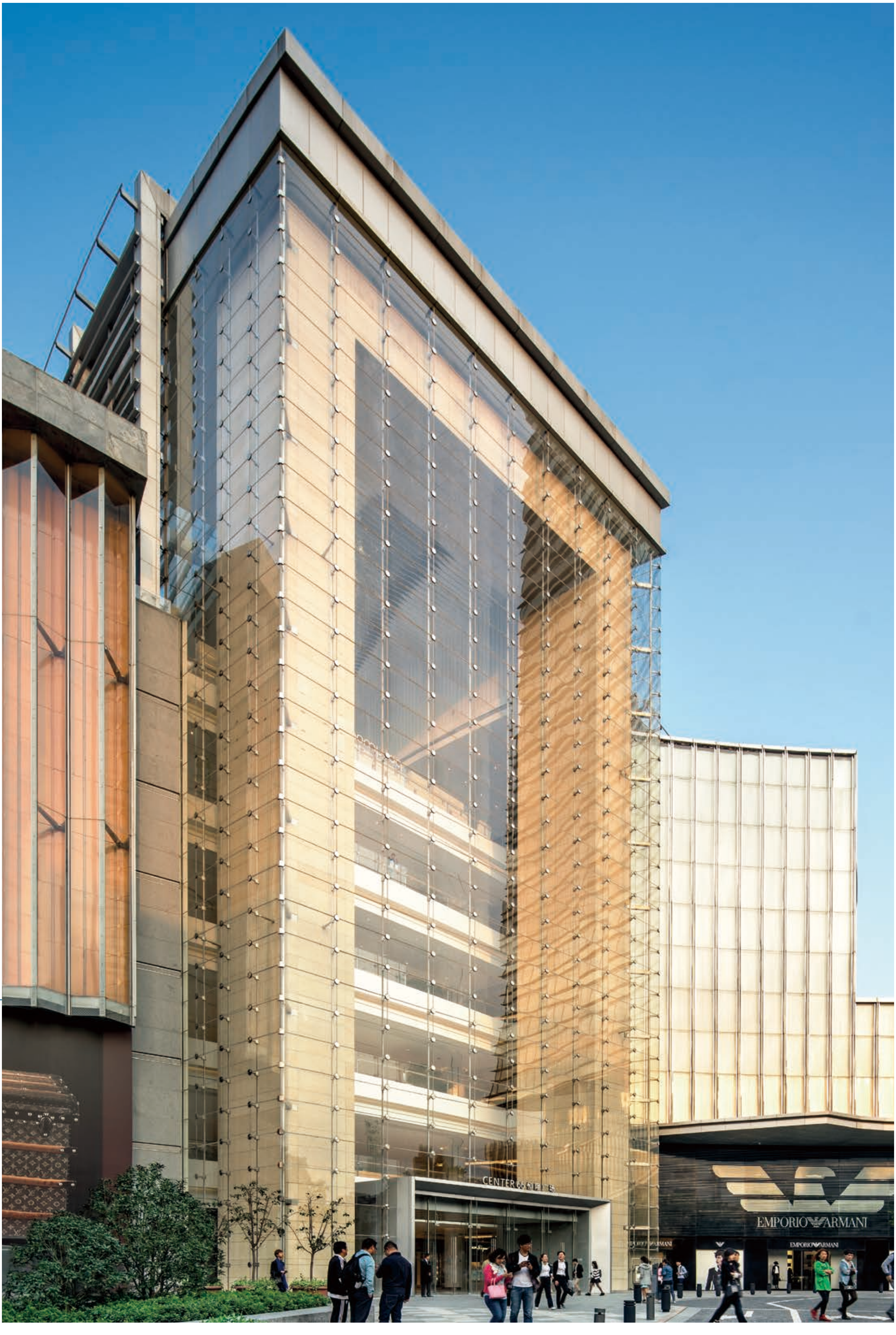
	Location	Lease Expiry	Total Gross Floor Area (sq.m.) Commercial	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
KORNHILL (QUARRY BAY)						
Kornhill Plaza	1-2 Kornhill Road, IL 8566	2059*	53,080	10,577	–	1,069
Kornhill Apartments	2 Kornhill Road, IL 8566	2059*	–	–	35,275	–
THE PEAK AND MID-LEVELS						
Peak Galleria	118 Peak Road, RBL 3	2047	12,446	–	–	493
The Summit	41C Stubbs Road, IL 8870	2047	–	–	15,225	54
HONG KONG SOUTH						
Burnside Villa	9 South Bay Road, RBL 994	2072	–	–	9,212	89
MONGKOK						
Grand Plaza	625 & 639 Nathan Road, KIL 10234 & KIL 10246	2060	20,905	31,251	–	40
Hang Tung Building	1112-1120 Canton Road, KIL 9708	2045*	–	–	–	1,000
Gala Place	56 Dundas Street, KIL 9590	2044*	7,454	30,205	–	478
TSIM SHA TSUI AND WEST KOWLOON						
Grand Centre	8 Humphreys Avenue, KIL 7725 & KIL 8026	2038	3,688	7,198	–	–
Hanford Commercial Centre	221B-E Nathan Road, KIL 10619 & KIL 8132	2037	1,444	4,891	–	–
AquaMarine	8 Sham Shing Road, NKIL 6338	2050	22,350	–	–	413
The Long Beach	8 Hoi Fai Road, KIL 11152	2050	20,174	–	–	93
NGAU TAU KOK						
Amoy Plaza	77 Ngau Tau Kok Road, NKIL 53, NKIL 1482, NKIL 2660 & NKIL 3947	2047	49,006	–	–	620
KWAI CHUNG						
Laichikok Bay Garden	Shops 1A1, 1A2, 5A, 6A & 6B, Lai King Hill Road, Lot 3336 of SD 4	2047	2,973	–	–	–

	Location	Lease Expiry	Total Gross Floor Area (sq.m.)# Commercial	Office and Industrial/ Office	Hotel	Residential and Serviced Apartments	No. of Car Parking Spaces
MAINLAND CHINA							
SHANGHAI							
Grand Gateway 66	1 Hong Qiao Lu, Xuhui District	2043	122,262	–	–	–	752
Plaza 66	1266 Nanjing Xi Lu, Jing'an District	2044	53,700	159,555	–	–	804
SHENYANG							
Palace 66	128 Zhongjie Lu, Shenhe District	2057	109,307	–	–	–	844
Forum 66	1 Qingnian Da Jie, Shenhe District	2058	101,960	131,723	60,222	–	2,001
JINAN							
Parc 66	188 Quancheng Lu, Lixia District	2059	171,074	–	–	–	785
WUXI							
Center 66 (Phase 1)	139 Renmin Zhong Lu, Liangxi District	2059	118,066	137,699	–	–	1,292
TIANJIN							
Riverside 66	166 Xing'an Lu, Heping District	2061	152,831	–	–	–	800
DALIAN							
Olympia 66	66 Wusi Lu, Xigang District	2050	221,900	–	–	–	1,214
KUNMING							
Spring City 66	21-23 Dongfeng Dong Lu/ 433 Beijing Lu, Panlong District	2051	166,754	167,580	–	–	1,629

* With an option to renew for a further term of 75 years

\# Gross floor area of mainland China investment properties includes gross floor area above and below ground

EMBRACE TECHNOLOGY


CENTER 66
EMPORIO ARMANI

Forum 66, Shenyang

Consolidated Results

With the robust growth and continuing expansion of our Mainland portfolio and the resilient performance of the Hong Kong portfolio, the revenue of our core property leasing business grew 5% year-on-year for the financial year ended December 31, 2019, despite a 4.3% Renminbi (RMB) depreciation against the Hong Kong Dollar. Property sales income dropped 76% to HK$296 million due to fewer residential units sold during the reporting year. As a result, the total revenue of Hang Lung Properties Limited (the Company) and its subsidiaries (collectively known as "Hang Lung Properties") retreated 6% to HK$8,852 million. Total operating profit decreased 5% to HK$6,487 million in the reporting period.

Underlying net profit attributable to shareholders increased 9% to HK$4,474 million. Underlying earnings per share increased correspondingly to HK$0.99. Including the revaluation gain and the related effects of income tax and non-controlling interests, net profit attributable to shareholders decreased 24% to HK$6,172 million. Earnings per share decreased similarly to HK$1.37.

Revenue and Operating Profit

	Revenue			Operating Profit		
	2019 HK$ Million	2018 HK$ Million	Change	**2019 HK$ Million**	2018 HK$ Million	Change
Property Leasing	**8,556**	8,181	5%	**6,325**	6,060	4%
Mainland China	**4,544**	4,244	7%	**2,938**	2,739	7%
Hong Kong	**4,012**	3,937	2%	**3,387**	3,321	2%
Property Sales	**296**	1,227	-76%	**162**	762	-79%
Total	**8,852**	9,408	-6%	**6,487**	6,822	-5%

Dividend

The Board of Directors has recommended a final dividend of HK59 cents per share for 2019 (2018: HK58 cents) to be paid by cash on May 20, 2020, to shareholders whose names appeared on the register of members on May 7, 2020. Together with an interim dividend of HK17 cents per share (2018: HK17 cents), the full year dividends for 2019 amounted to HK76 cents per share (2018: HK75 cents).

Property Leasing

Against the backdrop of the US-China trade dispute and the social unrest in Hong Kong, our property leasing performance recorded mild growth in both income and profit. Total property leasing revenue grew 5% to HK$8,556 million of which 53% was contributed by the Mainland operations. Mainland leasing properties achieved a revenue growth of 12% year-on-year in RMB terms, while the Hong Kong leasing portfolio recorded 2% growth in revenue under the shadow of the social unrest.

The retail market sentiment of Hong Kong had been weak this year even before the social unrest began in June, with year-on-year growth falling into negative territory after February 2019. Coupled with a drastic drop in tourist arrivals since the third quarter, the retail market shrank 23.6% year-on-year in November 2019. Retail sales lost momentum in the second half of 2019, especially in popular tourist districts such as Causeway Bay and Mongkok. As our retail portfolio in Hong Kong is not excessively exposed to the tourism sector and is more geographically dispersed, we maintained mild growth in leasing revenue for the reporting year.

Across the border, mainland China's GDP increased by 6.2% for the first three quarters of 2019, while total retail sales growth remained robust at 8.2%. Supportive government measures and a weaker RMB relative to 2018 continued to boost domestic consumption and the repatriation of spending. The strong growth in the sale of luxury goods in mainland China might partly be due to the diversion of sales from Hong Kong, given the social situation dampened visitors from mainland China.

Customer Engagement

We put our customer-centric strategy at the very heart of our operations to develop and continuously invest in initiatives to enhance customer experience and loyalty. Having successfully launched HOUSE 66 in 2018 at Shanghai Plaza 66 and Jinan Parc 66, this nationwide Customer Relationship Management (CRM) program has been subsequently launched in four more projects, namely Wuxi Center 66, Kunming Spring City 66, Shanghai Grand Gateway 66 and Shenyang Palace 66 in 2019. Members of the program can enjoy an array of personalized services and exclusive events which have been instrumental in enhancing customer loyalty and our relationships with customers and tenants. Besides, we continued to leverage technology to enhance customer experience through the launch of car-finding and paperless car park payment system during the year. SmartPOS, our integrated point-of-sale system, enables mobile payments and allows seamless HOUSE 66 reward points registration and targeted marketing promotion in the mall. It was fully rolled out to all our Mainland malls during 2019.

Constantly measuring customer satisfaction is key for us to explore ways to improve customer experience. Conducting online customer surveys and referencing to our Net Promoter Score to gauge satisfaction level of members of HOUSE 66 are some of the tools we use to engage customers.

Mainland China

The performance of our Mainland leasing portfolio in 2019 was encouraging. During the third quarter of 2019, various new properties in our leasing portfolio commenced business, namely the mall and office tower at Kunming Spring City 66, the second office tower at Wuxi Center 66, and Conrad Shenyang at Shenyang Forum 66. Total revenue climbed 12% to RMB4,003 million, or 10% when excluding the impact of the new properties. Operating profit grew 12% after taking up ramp-up losses of the new properties, while average margin for the period stood at 65%.

The growth momentum of the Mainland portfolio continued. Revenue in RMB terms achieved growth rates at 7% and 16% in the first half and second half of 2019. In particular, revenue of properties outside Shanghai grew 19% for the year, with a 24% growth for the second half. Revenue of the two Shanghai properties also advanced 8% year-on-year, with the second half year achieving a 12% increase.

The overall growth of our Mainland portfolio was stimulated by the remarkable revenue advancement at our eight existing malls with the new revenue stream from the opening of our new mall in Kunming in August 2019. Altogether, revenue from our Mainland malls increased by 14% to RMB3,129 million. Revenue of our Shanghai retail properties advanced 11% year-on-year, with Plaza 66 maintaining its growth momentum at 14% and milder growth of 6% at Grand Gateway 66 given the short-term rental interruption as a result of the ongoing renovation. Outside of Shanghai, all existing malls saw good improvement leading to an overall 14% increase in revenue.

Our office portfolio in mainland China generated 3% more in revenue for a total of RMB845 million in 2019 as compared to the previous year. The office towers at Shanghai Plaza 66 recorded a stable year-on-year income growth of 1%, against keen competition and new office supply in Shanghai. Income from all office towers accounted for 21% of our total Mainland leasing revenue.

Mainland China Property Leasing Portfolio

	Revenue			Occupancy Rate*	
City and Name of Property	2019 RMB Million	2018 RMB Million	Change	Mall	Office
Shanghai Plaza 66	1,696	1,554	9%	99%	93%
Shanghai Grand Gateway 66	853	803	6%	91%	N/A
Shenyang Palace 66	194	162	20%	95%	N/A
Shenyang Forum 66#	257	216	19%	94%	87%
Jinan Parc 66	322	292	10%	98%	N/A
Wuxi Center 66#	289	252	15%	95%	65%
Tianjin Riverside 66	186	179	4%	89%	N/A
Dalian Olympia 66	152	119	28%	82%	N/A
Kunming Spring City 66#	54	–	N/A	82%	13%
Total	4,003	3,577	12%		
Total in HK$ Million equivalent	4,544	4,244	7%		

* All occupancy rates stated herein were as of December 31, 2019.

New properties opened in 2019: Conrad Shenyang at Shenyang Forum 66, Office Tower Two at Wuxi Center 66, and the mall and office tower at Kunming Spring City 66.

Shanghai Plaza 66

Total revenue at Plaza 66 increased 9% to RMB1,696 million, mainly resulting from the strong performance of the mall.

The Plaza 66 mall has firmly established its positioning as the Home to Luxury following the completion of the major asset enhancement program in 2017 and the debut launch of HOUSE 66 in 2018. In 2019, we continued to leverage on House 66 to strengthen customer loyalty and drive tenant sales, with the highlight being the Home to Luxury Party. The party has also strengthened the mall's engagement with our valued business partners and customers. As a result, double-digit growth in revenue and sales, at 14% and 21% respectively, had been reported for the third consecutive year. The mall was almost fully let at the end of 2019.

Set against ample new supply of Grade A offices in nearby areas, our efforts in bringing new lettings and recruiting quality long-term tenants drove up average occupancy. Income from the two office towers at Plaza 66 grew 1% year-on-year to RMB630 million, with occupancy rate fell two points to 93% at the end of 2019.

Shanghai Grand Gateway 66 (Mall only)

Revenue at the Grand Gateway 66 mall increased 6% to RMB853 million, benefiting greatly from the full year effect of the reopening of the North Building since September 2018 and its basement in June 2019. The North Building, housing a mix of lifestyle brands and a refurbished cinema, has become a popular hub for young, affluent customers. More varieties of food and beverage offerings have also been a factor in successful positioning. The second phase of the renovation covering the bulk of the South Building and its basement is in the process of stage-by-stage completion and has been partially reopened. A new cosmetics zone housing top global brands and fast fashion retailers has energized the newly renovated basement. The luxury flagship stores at the main atrium of the South Building commenced business in December 2019. The entire South Building renovation is scheduled for completion in the third quarter of 2020.

Shenyang Palace 66

The Palace 66 mall collected 20% more in rents at RMB194 million, driven by higher occupancy rate and increased turnover rents. Retail sales rose by 20%, reflecting the mall's successful positioning as the leading contemporary lifestyle mall in the Zhongjie district and Shenyang city. International sports brands and popular lifestyle fashion brands recorded remarkable sales performance during the reporting year. The revamped kids' zone on the third floor was opened in the second quarter, further enhancing the tenant mix with an increase in family footfall. The occupancy rate rose seven points to 95%. In December 2019, HOUSE 66 was also launched at Palace 66.

Shenyang Forum 66

Total revenue at Forum 66 increased 19% year-on-year to RMB257 million, mainly contributed by the newly opened Conrad Shenyang and the revenue growth from the office tower.

The Forum 66 mall edged up 3% and 6% year-on-year respectively in revenue and retail sales, reflecting our efforts to reshuffle the tenant portfolio and diversify trade mix amid strong competition in the luxury retail sector. The occupancy rate rose one point to 94%, with the introduction of quality food and beverage tenants and shops targeting families and children. Some international brands also made their debuts into the Shenyang market with pop-up stores on the first floor of the mall.

Revenue from the office tower at Forum 66 advanced 8% year-on-year to RMB127 million, benefiting from the full year effect of leasing commencement at six high-zone floors in the second half of 2018. The year-end occupancy rate slipped one point to 87% amid new office supply in the market.

Conrad Shenyang, the 315-room five-star hotel residing on the top 19 floors of the office tower, was opened in September 2019, and contributed RMB29 million in revenue over its first four months of operations. As the first hotel in our mainland China portfolio, it is positioned as the pinnacle of Shenyang's high-end market and is expected to be a focal point for business and social gatherings in the city. It will also further strengthen the positioning of Forum 66 as an upscale shopping destination and prestigious address for businesses.

Jinan Parc 66

Income at the Parc 66 mall advanced 10% year-on-year to RMB322 million. The revenue growth was mainly attributable to favorable rental reversions and a two-point increase in occupancy rate to 98%. Retail sales rose 6%. The mall achieved higher unit rents and sales through tenant portfolio upgrade by introducing a good brand mix on the first floor, as well as new contemporary luxury brands and the new Starbucks Reserve and Heytea flagship stores. The themed zones on the upper floors were also upgraded with a sports zone on the fourth floor and new food and beverage offerings on the top floor.

HOUSE 66, launched in Parc 66 in December 2018, has been well received, with tenant sales as well as turnover rents boosted through collaboration with tenants in offering exclusive promotions and events to members.

Wuxi Center 66

Total revenue of the entire Center 66 portfolio achieved a remarkable growth of 15% year-on-year to RMB289 million.

Revenue at the mall jumped 22% mainly due to an increase in turnover rent after tenant reshuffling, favorable rental reversions and higher occupancy. HOUSE 66 was launched in May 2019, and retail sales surged 21% with the occupancy rate rising six points to 95%. Some luxury brands consolidated their stores in Wuxi after opening their stores at Center 66 and we expect to see more brand migrating to Center 66 in the coming year.

Including the revenue from the new 54,000-square-meter Office Tower Two which was opened in August 2019, total income of the two office towers stayed flat at RMB83 million in 2019. Occupancy rate at Office Tower One increased four points to 90% at the end of 2019.

Tianjin Riverside 66

Revenue at the Riverside 66 mall rose 4% year-on-year to RMB186 million. In August 2019, Starbucks opened a unique flagship store in the iconic and historic Zhejiang Xingye Bank Building. Part of the fourth floor was also converted into a themed zone to attract the younger generation while the overall trade mix of the mall had been further refined with more sportswear and lifestyle tenants. As a result, retail sales increased by 5% while the occupancy rate fell one point to 89% as tenant mix refinement continues.

Dalian Olympia 66

The Olympia 66 mall delivered remarkable results in 2019 with revenue and retail sales jumping 28% and 29%, respectively, riding on the business growth among popular contemporary lifestyle and food and beverage tenants. The occupancy rate increased three points to 82%. Phase two of the mall is scheduled to open in phases during 2020 with more luxury brands set to join the tenant portfolio.

Kunming Spring City 66

The mall and office tower at Spring City 66, our first project in the southwestern region of mainland China, were opened in late August 2019 and contributed RMB54 million in revenue during the reporting year.

Revenue from the mall in 2019 was RMB49 million. Positioned as Kunming's luxury and lifestyle destination of choice, the status of the Spring City 66 mall is set to gain further momentum with the arrivals of more luxury international brands in 2020. The year-end occupancy rate was at 82%.

The four-month old 153,000-square-meter office tower collected RMB5 million in rents, with 13% occupancy rate at the end of 2019.

Hong Kong

Like many businesses in Hong Kong, the performance of our Hong Kong leasing properties was adversely affected by the social unrest. Total revenue mildly advanced 2% to HK$4,012 million while operating profit also grew 2%. Rental margin remained at 84%.

With significant decrease in tourist arrivals, transport disruptions and shop closures, a significant drop in retail sales in all trades was inevitable. Nevertheless, the scheduled reopening of Peak Galleria after a two-year Asset Enhancement Initiative made a positive contribution to both retail sales and leasing revenue in 2019.

Hong Kong Property Leasing Portfolio

	Revenue			Occupancy Rate*
	2019 HK$ Million	2018 HK$ Million	Change	
Commercial	2,374	2,326	2%	98%
Office and Industrial/Offices	1,315	1,286	2%	93%
Residential & Serviced Apartments	323	325	-1%	74%
Total	4,012	3,937	2%	

* All occupancy rates stated herein were as of December 31, 2019.

Commercial

Revenue from our Hong Kong commercial portfolio increased 2% year-on-year to HK$2,374 million. While total retail sales dropped 4% year-on-year, sales in the second half of the year slumped 17% compared to the corresponding period in 2018. Occupancy rate at the end of 2019 edged up to 98%, three points above a year ago.

The **Causeway Bay portfolio** was hit hardest due to the social unrest in Hong Kong. Revenue from this portfolio dropped 1% to HK$628 million year-on-year. Retail sales decreased by 10% with occupancy rate declining two points to 97%.

Our Mongkok portfolio was also badly affected by the social unrest. Revenue at **Grand Plaza and Gala Place in Mongkok** achieved 6% growth in the first half year. After offset by the significant retail market slow-down, full-year revenue growth was slowed to 3%. Retail sales decreased by 1%. Both properties remained fully let at the reporting date.

Our community malls, namely **Kornhill Plaza in Hong Kong East** and **Amoy Plaza in Kowloon East**, were less affected by socio-political issues and saw an income growth of 2% to 3%, primarily due to the positive rental reversion of AEON STYLE in Kornhill Plaza, and the upgrade of food and beverage tenants at Amoy Plaza, which also benefitted from the opening of the UA Amoy cinema in August 2018. Retail sales of both malls decreased by 3% year-on-year.

Peak Galleria was reopened in the second half of 2019 after closure for major asset enhancement works in October 2018. Despite reopening at a challenging time, the mall had secured a 91% occupancy rate at end of the reporting year.

Offices

The Hong Kong office portfolio recorded 2% year-on-year growth in revenue to HK$1,315 million, mainly due to positive rental reversions. The overall occupancy rate slipped one point to 93%. Our offices in Central and Mongkok achieved revenue growth of 6% and 5% respectively. Revenue from the Causeway Bay portfolio, which has a good presence of semi-retail element, dropped 4%. Hong Kong office rental accounted for 33% of total leasing income in Hong Kong.

Residential and Serviced Apartments

Revenue from the apartments dropped 1% year-on-year to HK$323 million, mainly due to lower occupancy at Kornhill Apartments.

Property Sales

During the year, we sold one house at 23-39 Blue Pool Road (2018: three houses at Blue Pool Road, and nine apartments at The Long Beach). Accordingly, revenue from property sales fell 76% year-on-year to HK$296 million. Profit margin of property sales was 55%.

During the reporting period, we also disposed of 111 car parking spaces at Laichikok Bay Garden, previously held as investment properties. The gain on the disposal of HK$69 million was recognized as part of the fair value gain of properties.

Property Revaluation

The total value of our investment properties amounted to HK$159,534 million as of December 31, 2019, comprising the value of the Hong Kong portfolio and the mainland China portfolio standing at HK$64,659 million and HK$94,875 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as of December 31, 2019.

A total revaluation gain of HK$8,797 million (2018: HK$4,170 million) was recorded, representing a 5% growth in valuation compared to the value recorded at December 31, 2018.

Investment properties in mainland China recorded an overall gain of HK$9,281 million (2018: HK$318 million); revaluation gain of properties in Shanghai supported by robust rental growth and projections and capitalization rates compression by the valuer was partly offset by the revaluation loss of properties in second tier cities in light of the challenging market environment. Properties for leasing in Hong Kong had a revaluation loss of HK$950 million reflecting the adverse impact of a weakened economy and retail sales arising from the social unrest, which was partly offset by the HK$466 million gain of properties for sales upon transfer to investment properties. As a result, properties in Hong Kong recorded an overall revaluation loss of HK$484 million (2018: gain of HK$3,852 million).

Property Development and Capital Commitment

The aggregate values of property development projects on investment properties and properties for sale were HK$27,602 million and HK$4,707 million, respectively. These comprised mainland China projects in Wuhan, Wuxi, Kunming, Hangzhou and Shenyang, and redevelopment projects in Hong Kong. At the reporting date, our capital commitments for development projects in investment properties amounted to HK$26 billion.

Mainland China

The next Mainland project to commence operations will be Wuhan **Heartland 66**, which will house a premier mall, a Grade A office tower and serviced apartments for sale, with a total gross floor area of 460,000 square meters. Construction has been progressing as scheduled, with the mall and office tower targeting for completion in 2020. Leasing activities have commenced with good progress. Construction of the three residential towers commenced in the first quarter of 2019 and is scheduled for completion, in stages, beginning in the last quarter of 2022.

Phase two of Wuxi **Center 66** comprises luxury serviced apartments and a boutique hotel, with a total gross floor area of 108,982 square meters. The master layout plan of the project was approved in March 2019. Excavation works commenced in July 2019, and the project is expected to reach completion from 2023 onwards.

The remaining development of Kunming **Spring City 66** comprises a five-star hotel and luxury apartments. The planning permit is expected to be obtained in the first quarter of 2020 and construction is estimated to require about four years for completion.

The development of Hangzhou **Westlake 66**, a high-end commercial complex with a total gross floor area of 194,100 square meters above-ground, has started since September 2019. The entire project comprises a retail podium with five Grade A office towers and a hotel. With piling works commenced, the project is scheduled for completion, in phases, from 2024.

The master layout plan of the remaining phases of Shenyang **Forum 66**, consisting of a total gross floor area of 502,660 square meters, was submitted in November 2019. The development is made up of offices, apartments and a retail area. Construction works will commence by phases beginning from 2020.

Hong Kong

Joining hands with our parent company, Hang Lung Group, we commenced a redevelopment project at 226-240 Electric Road in North Point for the construction of a Grade A office tower with a total gross floor area of approximately 105,000 square feet, inclusive of a retail area on the podium floors. Completion of construction is expected in 2022.

In April 2019, we consolidated the entire ownership of the Amoycan Industrial Centre in Ngau Tau Kok through the Compulsory Sale for Redevelopment Order. As the site is close to MTR Kowloon Bay Station and the future East Kowloon Cultural Centre, it will be redeveloped into residential units for sale with commercial areas on the podium floors. The total gross floor area is about 155,000 square feet. The project is targeted for completion in 2023.

Liquidity and Financial Resources

Our major financial management objective is to maintain an appropriate capital structure with a high degree of agility. This is to ensure access to sufficient financial resources for meeting operational needs and capital commitments, and to seize investment opportunities when they arise for sustaining long-term growth. We also strive to establish multiple channels of debt financing for risk mitigation. All financial risk management, including debt re-financing, foreign exchange exposure, and interest rate volatility, etc., are centrally managed and controlled at the corporate level.

Liquidity and Financing Management

Cash flow position and funding needs are closely monitored and reviewed to ensure that we have a good degree of financial flexibility and liquidity while optimizing net financial costs.

As of December 31, 2019, total cash and bank balances amounted to HK$3,306 million (December 31, 2018: HK$12,363 million). All deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

For debt portfolio management, we focus on mitigating foreign exchange, interest rate, and re-financing risks. An appropriate mix of RMB/HKD/USD borrowings, fixed/floating rate debts, a staggered debt repayment profile, and a diversified source of funding are maintained.

As part of our ESG (environmental, social and governance) initiatives, we have continued to broaden the channel of obtaining green financing. In 2018, we were the first Hong Kong developer to establish an on-shore green bond issuance platform (Green Panda Bond) with a debut bond issuance of RMB1 billion. As a continuous commitment to sustainable development, our Green Financing Framework was further enhanced in 2019. A green loan facility of HK$1 billion was procured under that framework during the year.

As of December 31, 2019, total borrowings amounted to HK$29,673 million (December 31, 2018: HK$27,253 million), of which about 39% was denominated in RMB. The higher debt balance year-on-year was due to payments for the various projects under development in mainland China and Hong Kong, including the final payment of 50% of the land cost for Hangzhou Westlake 66.

The following table shows the composition of our debt portfolio:

	At December 31, 2019		At December 31, 2018	
	HK$ Million	% of Total	HK$ Million	% of Total
Floating rate HKD bank loans	**5,764**	19.4%	255	0.9%
Floating rate RMB bank loans	**10,443**	35.2%	13,490	49.5%
Fixed rate bonds	**13,466**	45.4%	13,508	49.6%
Denominated in USD	**7,789**	26.2%	7,832	28.7%
Denominated in HKD	**4,563**	15.4%	4,540	16.7%
Denominated in RMB	**1,114**	3.8%	1,136	4.2%
Total borrowings	**29,673**	100%	27,253	100%

At the reporting date, the average tenure of the entire loan portfolio was 2.9 years (December 31, 2018: 3.3 years). The maturity profile was well staggered and spread over a period of 6 years. Around 67% of the loans were repayable after 2 years.

	At December 31, 2019		At December 31, 2018	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	**2,694**	9.1%	2,414	8.8%
After 1 but within 2 years	**7,235**	24.4%	3,514	12.9%
After 2 but within 5 years	**18,172**	61.2%	17,900	65.7%
Over 5 years	**1,572**	5.3%	3,425	12.6%
Total borrowings	**29,673**	100%	27,253	100%

As of December 31, 2019, total undrawn committed banking facilities amounted to HK$9,399 million (December 31, 2018: HK$16,224 million). The available balances of the USD3 billion Medium Term Note Program and the RMB10 billion Green Panda Bond Program amounted to USD1,408 million and RMB9,000 million, respectively, equivalent to HK$21,004 million in total (December 31, 2018: HK$21,297 million).

Gearing Ratios and Interest Cover

At the end of 2019, the net debt balance amounted to HK$26,367 million (December 31, 2018: HK$14,890 million). Net debt to equity ratio was 17.8% (December 31, 2018: 10.4%) and debt to equity ratio was 20.1% (December 31, 2018: 19.0%).

For the year ended December 31, 2019, the total amount of gross borrowing costs increased by 12% to HK$1,475 million. The net amount charged to the statement of profit or loss for the year decreased by 96% to HK$46 million due to the capitalization of borrowing costs to projects under development and the adoption of an amendment to the accounting standard on the capitalization of borrowing costs effective on January 1, 2019.

Interest income for the year decreased 67% to HK$146 million. The decrease was mainly due to a reduction in average deposit balance after settling the payments on capital expenditures and the Hangzhou land premium.

The amount of net interest income for 2019, i.e. the excess of interest income over finance costs, was HK$100 million (2018: net interest expense of HK$624 million). The average effective cost of borrowings for the year was lowered to 4.8% (2018: 4.9%).

Interest cover for 2019 was 4 times (2018: 7 times).

Foreign Exchange Management

Our activities are exposed to foreign exchange risks, mainly arising from operations in mainland China and the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the exposure to foreign exchange risk.

The cash and bank balances at the reporting date comprised the following currencies:

	At December 31, 2019		At December 31, 2018	
	HK$ Million	% of Total	HK$ Million	% of Total
Denominated in:				
HKD	**2,056**	62.2%	4,673	37.8%
RMB	**1,150**	34.8%	7,681	62.1%
USD	**100**	3.0%	9	0.1%
Total cash and bank balances	**3,306**	100%	12,363	100%

(a) RMB Exposure

Our RMB exposure is mainly derived from the currency translation risk arising from the net assets of our subsidiaries in mainland China.

As of December 31, 2019, net assets denominated in RMB accounted for about 63% of our total net assets. As the RMB had depreciated by about 2.2% against the HKD between the two balance sheet dates, the re-translation of these net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$2,028 million (2018: HK$3,658 million). The re-translation loss was recognized in other comprehensive income/exchange reserve.

Our business operations and projects under development in mainland China are funded by cash inflows from mainland China operations and RMB borrowings, in addition to capital injections from Hong Kong. We have adopted a systematic approach to mitigate the currency risks and practiced the strict discipline of not taking any speculative position on the movement of the RMB against the HKD. Regular business reviews were undertaken to assess the level of funding needs for our mainland China projects after taking into account various factors such as regulatory constraints, project development timelines, and the market environment. Appropriate modifications to our funding plan will be conducted in light of the outcome of periodic reviews.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,789 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to effectively fix the exchange rate between the USD and HKD for future interest payments and principal repayments.

The changes in the fair value of both swap contracts did not materially impact the cash flows and the profit or loss as they qualified for cash flow hedge accounting.

Charge of Assets

Assets of Hang Lung Properties were not charged to any third parties as of December 31, 2019.

Contingent Liabilities

Hang Lung Properties did not have any material contingent liabilities as of December 31, 2019.

UPHOLD HANG LUNG CORE VALUES

Hang Lung remains steadfast in integrating sustainability into its business value chain. In 2019, we maintained our high standard of integrity and constructed and operated our buildings in a sustainable fashion. Meanwhile, we continued to cultivate our talent and support community development. All these measures exemplify how we uphold our business philosophy – We Do It Right – contributing to economic vibrancy, social development, and protecting the environment as elements of our own sustainable growth.

Reporting Approach and Standards

The Sustainable Development section in this Report serves as a summary of our performance in key sustainability topics in 2019. Comprehensive review of our sustainability policies and performance will be disclosed separately in our standalone Sustainability Report 2019, which will be prepared in accordance with the Global Reporting Initiative (GRI Standards), and the "comply or explain" provisions and "recommended disclosures" of the ESG Guide contained in the Appendix 27 of the Listing Rules.

Deliver Employee-Centric Experience

Coveted Workplace

We are committed to providing a coveted workplace to create shared value with our employees. As such, we provide competitive remuneration and benefits packages which are regularly benchmarked against industry peers to sustain a fair and respectful work culture. We also remain committed to providing equal opportunities to our employees and job candidates. As stated in our Equal Employment Opportunities Policy, we prohibit discrimination against our employees or job candidates on any grounds, including gender, age, marital status, family status, pregnancy, disability, race, ethnic origin, and religion. To ensure that we comply with local employment laws, we include relevant policies in our Code of Conduct and remind our employees about the Company's discipline practices biannually. In addition, we forbid any unlawful forms of labor, including child labor and forced labor.

As of December 31, 2019, the Company employed 4,626 staff across Hong Kong and mainland China. Total employee costs for the year were HK$1,604 million.

Learning and Development

We firmly believe that investment in our workforce is a key driver of sustainable business growth. By providing sufficient training and development opportunities for our employees, we enable them to acquire the latest knowledge and skills to adapt to the fast-changing business environment. Total employee training hours in 2019 amounted to over 125,000 hours. In addition to internal training programs, we provide sponsorship for employees applying for professional memberships and pursuing external training programs. With the aim of enabling our employees to explore new job opportunities and challenges within the Group, and to retain talent, we launched CareerConnect, an internal recruitment platform for our staff.

We organized various activities including workshops, yoga classes and Christmas Family Day to promote worklife balance and well being among our employees

Health, Safety and Wellbeing

We place great emphasis on the health, safety and wellbeing of our employees. In 2019, we refined our occupational safety and health management systems for office and frontline operations in Hong Kong through independent third-party safety inspections at sites and conducting corrective actions. Fostering a culture of safety, we provide safety training for our employees and contractors on a regular basis. During the year, we maintained zero fatalities among our staff. At our construction sites in mainland China, we appointed safety consultants to monitor the safety performance of our contractors. We maintained strong safety performance with the overall accident rate of 0.012 accidents per 100,000 man-hours.

We also encourage work-life balance and promote wellbeing among our employees. In 2019, we arranged a series of talks on common diseases in Hong Kong, facilitated by a registered nutritionist. We also arranged a talk to introduce preventive measures of common eye diseases conducted by an optometrist. In addition, we hosted a diverse array of leisure activities, including a mooncake baking class, family photo shooting day, and a movie appreciation activity in Hong Kong, and yoga classes and rope skipping competitions in mainland China. Helping our employees to balance work and family life, we have implemented various family-friendly measures such as providing lactation rooms in all of our offices in Hong Kong and mainland China.

Making Better Places

Sustainable Buildings

As a leading commercial property developer in Hong Kong and mainland China, we aspire to continually raise the bar of sustainable buildings in the region by taking environmental and social impacts into consideration throughout the lifecycle of our buildings. We also provide guidance to our staff, contractors, and suppliers on the construction and management of our buildings in an environmentally friendly fashion through our Environmental Policy. In addition, we design, construct and manage buildings according to international best practices wherever possible. Our effort in implementing green practices in building operations has received commendations, with two of our shopping malls, Riverside 66 in Tianjin and Olympia 66 in Dalian, named Green Malls by the Ministry of Commerce of the People's Republic of China.

Heritage Conservation

Aiming to preserve local culture and architectural history, and add vitality to economy, we have invested substantial resources in the restoration, conservation and integration of onsite historical buildings into our project designs. At Riverside 66 in Tianjin, we incorporated the nearly century-old, traditional European-style Zhejiang Xingye Bank Building into plans for our contemporary retail center at the design stage. We also partnered with a like-minded tenant, Starbucks, on the transformation of the historical landmark into a flagship store for the coffee chain. Through this three-year project, we preserved most of the original interior architectural features of the historical landmark and blended them with a modern customer experience.

Climate Change and Energy Conservation

To begin addressing the potentially damaging physical impacts of climate change on our business, we conducted a preliminary climate risk mapping exercise at the corporate level in 2019. We have also monitored our carbon emissions and appointed an independent consultant to verify our annual Scope 1 and Scope 2 greenhouse gas emissions.

Our shopping malls and tenants co-organized activities to promote green and low carbon lifestyle to local citizens

Since over 90% of our carbon footprint is generated by energy consumption, we make every effort to reduce our carbon footprint through energy conservation. As an example, we have replaced existing equipment with more energy efficient options as a part of our Asset Enhancement Initiative to optimize the energy consumption of our facilities.

Our efforts in energy conservation and carbon reduction have won external recognition. Riverside 66 in Tianjin was presented the Excellence in the Carbon Challenge Award at Greenbuild China 2019. The Carbon Challenge was co-organized by the U.S. Green Building Council and Dow to recognize the building industry's commitment to a sustainable built environment and leadership in reducing carbon emissions.

Water Conservation

Water scarcity is a worldwide challenge that affects many of the cities we operate in. We have implemented a wide range of measures to reduce water consumption at our properties, including the installation of water-efficient fixtures and enhancing awareness about water conservation through regular reminders to our staff, customers, and tenants.

Waste Management

Waste management remains a major environmental issue in Hong Kong and mainland China. As such, the HKSAR Government plans to introduce the Municipal Solid Waste (MSW) Charging Scheme in the near future. To prepare for its implementation, Kornhill Plaza joined the Municipal Solid Waste Charging Trial Project organized by the Environmental Protection Department (EPD) in Hong Kong, from November 2018 to May 2019. Over 70% of our tenants at Kornhill Plaza also participated in the trial project and most of them agreed that it enhanced their awareness about waste reduction.

In mainland China, the Chinese Government has introduced mandatory MSW classification regulations in some of the cities where we operate, including Shanghai. Leading up to and following implementation of these regulations in Shanghai, we maintained close communication with our tenants to ensure that they could adapt to the new waste classification and disposal arrangements.

Green Financing

To govern how green funding is used and allocated in eligible projects, we launched the corporate-level Green Finance Framework, which complies with international standards, including Green Bond Principles and Green Loan Principles, in June 2019. In December 2019, we also secured our maiden green loan, which can be used to finance our commercial property development projects in mainland China certified or pre-certified under the Leadership in Energy and Environmental Design (LEED) rating system of the U.S. Green Building Council.

Community and Partnership

Hang Lung As One Volunteer Team

Growing with our community is a crucial element in our sustainability strategy, and the Hang Lung As One Volunteer Team is indispensable in realizing this goal. In 2019, our volunteer activities remained focused on three areas: youth development, elderly services, and environmental protection. This year, we organized 104 volunteer activities, devoting over 13,500 volunteer hours in Hong Kong and mainland China.

We organize meaningful activities in collaboration with our community partners along with our staff to support those in need

A wide range of volunteer activities with a focus on environmental protection was held in Hong Kong and mainland China to promote green living

In Hong Kong, working collaboratively with three organizations, namely Walk in Hong Kong, the Evangelical Lutheran Church in Hong Kong, and the Shatin District Community Centre for the Golden-Aged, we organized a guided tram tour for the elderly. We also arranged a guided tour and a blueprint craftsmanship workshop at the Blue House in Wan Chai for underprivileged children from Kwai Tsing as well as a bamboo upcycling camp for a group of primary school students to promote their understanding of upcycling.

In mainland China, our volunteer teams organized diverse activities to support youth development, ranging from a visit to the Forbidden City in Beijing with volunteers from Riverside 66 in Tianjin, to a painting event at a rural school facilitated by volunteers from Heartland 66 at Wuhan. To promote the message of greening the environment and enhancing awareness about air quality, volunteers from Center 66 in Wuxi and Parc 66 in Jinan hosted planting workshops for local primary school students and explained how plants can help to improve air quality. Our teams also visited nursing homes for senior citizens. Volunteers from Olympia 66 in Dalian made dumplings together with senior citizens while volunteers from Grand Gateway 66 in Shanghai presented sachets of traditional Chinese medicine to the elderly.

Hang Lung Young Architects Program

After receiving an overwhelmingly positive response in 2017, the Hang Lung Young Architects Program returned in 2019 with the theme "Sketch Your Sky". During the program, 330 students from 66 secondary schools will appreciate the beauty and stories of architecture, and will explore the connection between architecture and our communities through a series of seminars, workshops, and walking tours. The participants will be involved in a creative project competition, and the three winning teams will be awarded overseas architectural tours to broaden their horizons.

Supply Chain Management

Embedding sustainability throughout our value chain requires collaboration. In our Supplier Code of Conduct, we define the basic standard of conduct and the sustainability principles that all our suppliers and contractors must observe. Major areas covered by the Supplier Code of Conduct include compliance with local legislation, prohibitions against child and forced labor, health and safety standards, and protection of the environment. To ensure compliance, we conduct regular assessments of all suppliers and annual performance reviews with major suppliers. We also maintain the Central Environmental Purchasing Policy to encourage our employees, suppliers, and contractors to procure local and environmentally responsible products and services.

Sustainability Recognition

Our sustainability performance and the transparency of our disclosure practices have received both local and international recognition. We have been listed as a constituent of the Hang Seng Corporate Sustainability Index in Hong Kong and the Hang Seng (Mainland and Hong Kong) Corporate Sustainability Index with an "AA" rating for the last decade. In the global arena, we have been selected as a member of the Dow Jones Sustainability Indices Asia Pacific Index for three consecutive years, and maintained a 3-Star performance rating and A-grade disclosure rating under the Global Real Estate Sustainability Benchmark (GRESB). These honors recognize companies with outstanding sustainability performance based on objective assessments of public disclosure, policies adopted, and performance in selected areas.

The Hang Lung Young Architects Program 2019-20 engaged 15 leaders from the construction industry and academia to take up roles as Program Advisors


MERRY XMAS

DISCIPLINED EXECUTION

Olympia 66, Dalian


VESTON
威仕顿健身
ZOO COFFEE

Palace 66, Shenyang


FASHION WALK
AUTHOR OF PERFUMES
GOUTAL
PARIS
AUTHOR OF PERFUMES
AUTHOR OF PERFUMES
FASHION WALK
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FASHION WALK

The Corporate Governance Report sets out the details of our risk management and internal control systems. The Company's principal risks in 2019 are listed below:

Property Development Risk

The ability to acquire suitable land for development is critical for the Company in order to sustain continuous growth and the desired return on investment. Complexity of design and changing government policies and regulations in mainland China present implementation challenges in delivering projects safely, on budget, on time, and to the desired quality.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Heavy capital investment coupled with a long investment period and market cycles provide both opportunities and challenges in land acquisition	⇌	• Set investment strategy, criteria and risk appetite prior to land acquisition • Consolidate local market information • Conduct appropriate due diligence including third party expert reviews • Identify critical resource constraints in funding or manpower for proper planning • Undertake structured analyses of business opportunities • Exercise financial prudence and continuous monitoring of return on investment
Complexity of design, tight deadlines and fluctuations in materials costs after tender award due to major changes in macro government policies present implementation challenges in delivering projects safely, on budget, on time and in line with the required quality	⇌	• Establish clear roles and responsibilities for accountability and division of duties among the Development and Design, Project Management, Cost and Controls, Leasing, and Service Delivery departments at various stages of the development cycle • Closely monitor project progress and review all aspects of a development's planning and construction • Closely monitor the costs and supply of materials, tighten controls on price variation claims, define terms in both the tenders and the contracts, and conduct careful tender analyses to verify the returned tender prices • Carry out factory inspections to ensure quality of materials before delivery to site and set up workmanship mock-up for inspection before commencement of works • Identification and rectification of any non-compliance cases by the designated safety manager and external safety consultant • Establish clear and comprehensive policies and procedures with periodic enhancements to tighten controls • Provide regular and comprehensive reports to the Audit Committee and the Board, and strengthen management supervision
Introduction of new government regulations or sudden policy changes without sufficient consultation could adversely affect a project's development	⇌	• Actively engage with regulatory bodies and professional firms on updates to laws and regulations • Monitor the impact of major breaches or noncompliance with regulatory requirements, if any • Continue monitoring and assessing the impact of regulatory changes, prepare legal updates on a quarterly basis and conduct legislative trend analyses • Maintain proper and sufficient documentation as far as possible

Key – Risk Trend (Change from last year) ↑ Upward/increasing risk trend ⇌ Risk trend remains similar

Business and Operational Risk

We ensure that our properties remain highly competitive by closely monitoring and responding to the business environment and market trends. However, changing socio-political conditions, the advent of digital technologies, and ever-changing consumer behavior always present new challenges to our business. The social unrest in Hong Kong during the second half of the reporting year led to varying degrees of impact on customer footfall and leasing revenue at our malls, with landlord incentive offers and tenancy terminations beginning in the third quarter of the year.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Social unrest in Hong Kong undermines ongoing business and overall business environment	↑ Demonstrations and vandalism in Hong Kong trigger rental negotiations, damages of property facilities, and disruptions of business operations	• Monitor the development of social unrest closely and flag up alerts in a timely manner • Strengthen safety measures and protocols, step up crisis preparedness, and develop business continuity plans • Track any damage to properties, facilities, and systems, with timely follow-up on repair and maintenance needs, and raise high alert of fire risk • Communicate with tenants in a timely manner, monitor occupancy costs, and provide tailored assistance according to impact • Provide incentives and awards to employees to boost morale and retain existing staff, and increase additional headcount if needed
Changes in economic conditions and a challenging retail market in mainland China could impact our business strategy	⇄	• Conduct structured market studies and consumer research to understand competitors and customer needs • Clearly define and present three types of malls with different positioning strategies in mainland China • Review and enhance tenant mix regularly at each project site and to engage new brands • Review the asset performance of each property on a regular basis, fine-tune business strategy, including the refinement of positioning and different product lines for existing malls, to remain competitive • Perform tenant and shopper surveys to further improve levels of satisfaction and overall service quality • Undertake project renovations and employ proactive marketing strategies as necessary
Fast-paced technological innovations such as e-commerce and robotic technology, as well as rapidly changing consumer behavior and taste could impact the Company's business model or strategy	↑ Advances in technology and changes in consumer behavior undermining competitiveness	• Study the latest relevant technologies for understanding consumers through data and video analytics, smart retail solutions and artificial intelligence • Explore and adopt appropriate latest technologies such as virtual reality/augmented reality, 3D imaging, innovative digital platform solutions for creating exciting new experiences • Ensure IT infrastructure readiness for anticipated IT developments such as big data and cloud technology • Establish targeted Customer Relationship Management programs to better understand customers, drive sales, and increase customer loyalty
Major external disasters or crises, such as pandemics, pollutions, floods, earthquakes, cyber-crimes, etc., could impact assets or business sustainability	⇄	• Ensure appropriate insurance coverage for properties and business • Develop business continuity plans for each critical function • Continue to enhance IT security policies and guidelines, e.g. conduct IT disaster recovery drills and penetration tests • Implement crisis management training and drills, including cyber-attack scenarios • Conduct testing on the effectiveness of the design and implementation of crisis management plans • Introduce defense measures against gaps identified by the cyber security assessment

People Risk

Strong competition for talented staff and the tight labor market across the property management sector, especially during times of recent Hong Kong social unrest and public order events, presenting challenges to our frontline operations in ensuring a normal level of services in our Hong Kong malls. Moreover, inadequate supply of qualified and competent manpower at the second tier cities in mainland China continues to affect our new projects.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Failure to recruit, develop or retain staff with suitable capabilities and the capacity to support expansion/growth of the Company	↑ Challenges in recruiting/retaining talents in Hong Kong ⇄ in mainland China	• Develop a manpower plan to match existing and future human capital resources needs against our business strategy • Promote employer branding to attract and retain talents • Set-up internship program with reputable universities in both Hong Kong and mainland China, and expand sourcing channel for operating staff, e.g. retirees and flexi-workers • Review the competitiveness of our compensation and benefits regularly • Facilitate internal rotation and staff initiated career development under an internal job posting platform "CareerConnect" • Conduct talent review sessions to identify and retain staff with development potential • Provide training to ensure our staff possess the expertise and skills to support our business growth. Provide financial assistance for staff attending recognized professional development programs • Continue to enhance management trainee program in Hong Kong and mainland China • Operate an effective grievance reporting system
Fraud and corrupt activities could result in significant financial losses and/or impact the reputation of the business	⇄	• Strengthen commitment to the highest standards of integrity and accountability • Provide continuous training and reinforce communications with staff on integrity, impartiality, and honesty • Operate an effective whistleblowing mechanism • Review and update Staff Handbook and Code of Conduct periodically to emphasize zero tolerance for unethical behavior

Treasury Risk

In keeping with the principle of prudent financial management, we have processes in place to identify and manage risks associated with our treasury operations. Key risk areas under the treasury function include interest rate and foreign exchange rate risks, funding and liquidity risks, as well as credit/counterparty risks.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Part of the Company's borrowings is floating-rate bank loans, which could expose us to rising interest rates	⇌	• Adopt various measures such as the issuance of fixed rate bonds and loans, the use of derivatives such as interest rate swaps for managing an appropriate mix of fixed/floating debts • Maintain a relatively conservative gearing ratio
Our business in mainland China has by nature currency risk from the capital investment, as well as risks from the currency mismatch between revenue and debts	⇌	• Maintain an appropriate level of Renminbi resources for the Company's capital requirements in mainland China • Monitor currency risk and perform sensitivity analyses periodically • Modify the currency hedging strategy when necessary
Market liquidity may change from time to time and limit our ability to borrow adequate and cost-effective funding	⇌	• Management of cash and financing at corporate level by the treasury team • Maintain closer relationships with banks and intermediaries • Manage the maturity profile of deposits and loans to minimize refinancing risk • Establish and maintain diversified channels of debt financing
Credit/counterparty risk exposure is primarily in rents receivable and deposits placed with banks	⇌	• Undertake comprehensive credit assessments of prospective tenants • Require rental deposits and rent in advance, and closely monitor outstanding rents to mitigate rents receivable risk • Assign bank exposure limits to mitigate concentration risk on our deposits • Only make deposits with banks that have sound financial strength and/or good credit ratings

In addition, to address the principal risk categories faced by the Company, specific emerging risks, such as US-China trade dispute, the environmental impact of climate change, and the latest technological innovation such as artificial intelligence impacting our business model, have been monitored closely and reviewed periodically during the year. The Company recognizes that the potential impact of such emerging risks may become more significant in the future.

To build a sustainable future, we are always mindful of pursuing good corporate governance with a clear vision on sustainability. We recognize that sound corporate governance is a strong foundation for our sustainable business growth and a key to long-term success.

Our Strong Belief in Governance

Hang Lung firmly believes that strong governance is the foundation for delivering the corporate objective of maximizing returns to its stakeholders over the long term. At the core of the governance structure is an effective and qualified Board, which is committed to maintaining the highest standards of corporate governance, sound internal controls, and effective risk management to enhance transparency, accountability, integrity, and honesty in order to earn the confidence of our shareholders and other stakeholders.

Corporate Governance Structure

A Sound Corporate Culture

As good governance is essential to corporate success, we have always been proud of our We Do It Right business philosophy, which has guided us to operate our business with integrity and honesty. A sound culture of governance has to reach all levels of the organization, and the highest standards of integrity and honesty from every employee in every process is expected. Our professional management together with the Board strive to instill integrity into every aspect of our business in every city where the Company is operating its world-class projects.

Professional and Responsible Board

The Board comprises professionals from different sectors of society, who bring a wide range of business and financial experience and expertise to the Board. The Board includes a balanced composition with a strong independent element which can effectively exercise impartial judgment. To enhance the function of the Board, three Board committees, namely, the Executive Committee, Audit Committee and Nomination and Remuneration Committee have been set up to assume different responsibilities.

Prudent Risk Management

The Company recognizes the various risk factors it will face in its operations and properly deals with them in a manageable manner by setting a good internal control environment and making continuous improvements to suit the changing operational needs. Further explanations are disclosed hereunder and in the Risk Management section of this annual report.

Compliance with Corporate Governance Code

As good corporate citizens, we have adopted and fully complied with, and in many cases exceeded, the code provisions and some recommended best practices of the CG Code.

The key cases are listed below:

Board & Board Committees

- Six regular Board meetings in 2019
- Four Audit Committee meetings in 2019
- Strong Board independence with over half of its members being INEDs
- Nomination and Remuneration Committee and Audit Committee comprising INEDs only
- Audit Committee members meeting external auditor without the presence of management four times in 2019

Sustainability

- Sustainability framework in place since 2012 with the establishment of Sustainability Steering Committee
- ERM Working Group as a robust forum for risk management
- Well established framework for robust crisis management
- Publication of separate sustainability reports since the financial year 2012
- Sustainability reports exceeded the requirements of the ESG Guide and received independent third party assurance since the financial year 2014
- External independent assessment on the framework of ERM

Accountability
• Publication of results announcement within one month from the end of accounting period
• Adoption of Code of Conduct since 1994
• Well-defined whistleblowing policy
• Whistleblowing cases reported to the Audit Committee on a half-yearly basis
• Confirmation of compliance with the Code of Conduct regarding "Transactions in the Company's Shares" by all executive staff on a half-yearly basis
• Declaration of interest with the Company, subsidiaries or associated companies by all executive staff on a half-yearly basis
• Half-yearly reminder to all staff on the policy governing conflict of interest situations
Communications
• The Chairman's detailed explanation of the business strategies and outlook of the Group in his Letter to Shareholders
• Open and direct dialogue between the Chairman and shareholders in AGM
• Serving of AGM notice with more than 20 clear business days

(I) Effective and Qualified Board

1. Composition, Board Diversity, Functions, and Board Process and Access to Information

Composition

The Board currently comprises 11 members:

- four Executive Board Members
  Mr. Ronnie C. Chan (Chairman)
  Mr. Weber W.P. Lo (Chief Executive Officer)
  Mr. H.C. Ho (Chief Financial Officer)
  Mr. Adriel W. Chan

- one NED
  Mr. Philip N.L. Chen

- six INEDs
  Mr. Ronald J. Arculli
  Mr. Nelson W.L. Yuen
  Mr. Dominic C.F. Ho
  Dr. Andrew K.C. Chan
  Prof. H.K. Chang
  Ms. Anita Y.M. Fung

Our NED and INEDs possess diverse academic and professional qualifications or related financial management expertise and bring a wide range of business and financial experience to the Board.

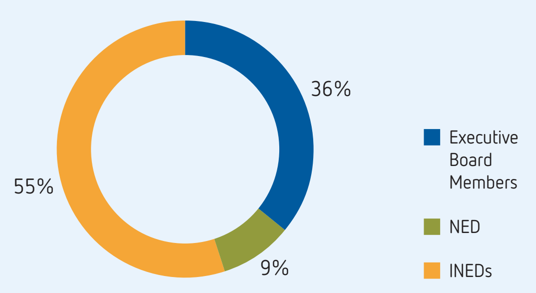
Mr. Ronnie C. Chan is the father of Mr. Adriel W. Chan.

Board Diversity

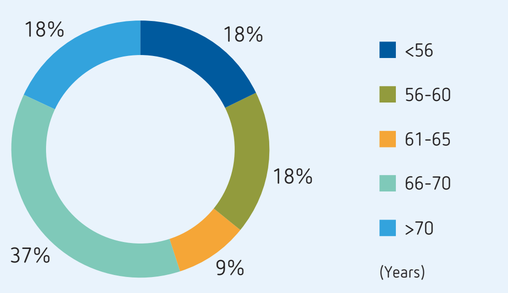
The Board has a policy setting out the approach to achieve diversity on the Board (the Board Diversity Policy) with the aim of enhancing Board effectiveness and corporate governance as well as achieving our business objectives and sustainable development. Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge, and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board Diversity Policy is available on our website under Board of Directors of Corporate Governance of the Investor Relations section.

Board composition and diversity as at December 31, 2019 are as follows:

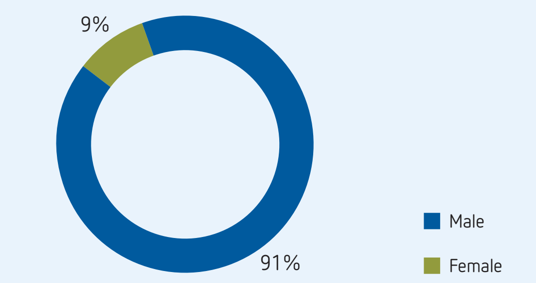
Designation



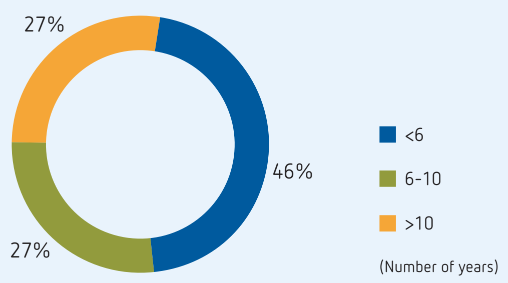
Age



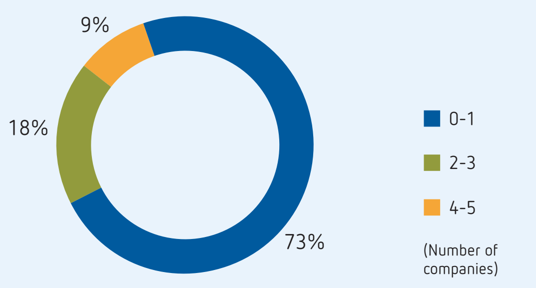
Gender



Directorship with the Company



Other Public Company Directorship



The current Board consists of a diverse mix of Board Members with appropriate skills and experience to lead and oversee the business of the Company, and depending on the needs of our growing business and the availability of competent candidates to fulfill those needs, suitably qualified individuals will be considered in the future for membership.

Functions

An updated list of Board Members identifying their roles and functions and whether they are INEDs is maintained on our website and the website of HKEx. Their biographical details, disclosed on pages 139 to 144 of this annual report, are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board is responsible for, among other things:

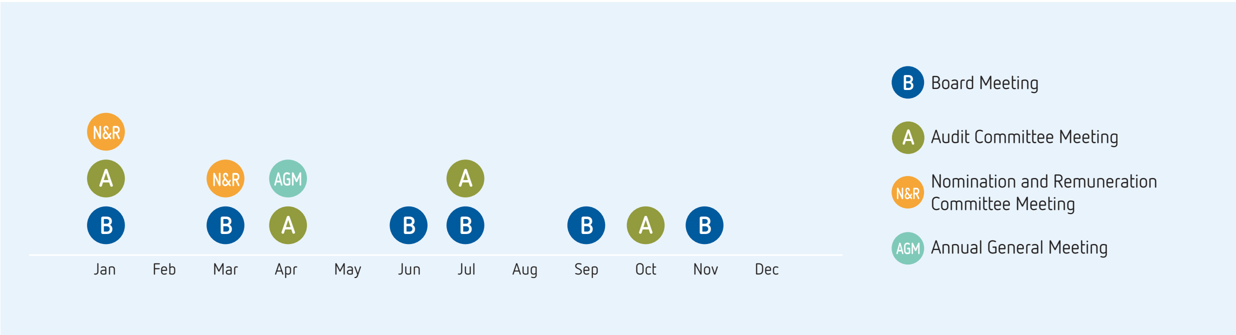
- ensuring continuity of leadership;
- the development of sound business strategies;
- the deployment of adequate capital and managerial resources to implement the business strategies adopted; and
- the adequacy of systems of financial and internal controls, risk management, as well as the conduct of business in conformity with applicable laws and regulations.

NED and INEDs have made a positive contribution to the development of the Company's strategies and policies, providing independent, constructive, and informed advice. They have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The balance composition between Executive Board Members and NEDs (including INEDs) has provided a good check and balance in safeguarding the interest of the shareholders.

All Board Members are required to disclose to the Company any offices held in public companies or organizations and other significant commitments. Every Board Member ensures that he/she gives sufficient time and attention to the affairs of the Company.

In 2019, six regular Board meetings were held. Two Board meetings were held during two offsite Board trips: (1) a London trip for visits to certain leading mall operators and (2) a Shenyang trip for visits to the Group's properties at Palace 66 and Forum 66 (including the recently completed hotel project – Conrad Shenyang) and competitors' malls.

Timeline for the Board meetings, Committees meetings and AGM held in 2019 is set out below:



In 2019, the average attendance rate of Board Members at Board meetings was 97%. Details of Board Members' attendance records in 2019 are set out below:

	Meeting Attended/Held			
Board Members	Board	Audit Committee	Nomination and Remuneration Committee	2019 AGM
Independent Non-Executive Directors				
Ronald J. Arculli	4/6	N/A	2/2	1/1
Nelson W.L. Yuen	6/6	N/A	N/A	1/1
Dominic C.F. Ho	6/6	4/4	2/2	1/1
Andrew K.C. Chan	6/6	4/4	N/A	1/1
H.K. Chang	6/6	4/4	2/2	1/1
Anita Y.M. Fung	6/6	4/4	N/A	1/1
Non-Executive Director				
Philip N.L. Chen	6/6	N/A	N/A	1/1
Executive Directors				
Ronnie C. Chan	6/6	N/A	N/A	1/1
Weber W.P. Lo	6/6	N/A	N/A	1/1
H.C. Ho	6/6	N/A	N/A	1/1
Adriel W. Chan	6/6	N/A	N/A	1/1

Board Process and Access to Information

Any Board Member can give notice to the Chairman or the Company Secretary if he/she intends to include matters on the agenda of a Board meeting. Board or committee papers will be sent to all Board Members or committee members at least three days before the intended date of a Board meeting or committee meeting. Management also supplies the Board and its committees with sufficient information and analyses so as to enable them to make an informed assessment of financial and other information put before the Board and its committees for approval. Management is also invited to join Board meetings where appropriate. The Company Secretary has kept the minutes of Board meetings and committee meetings together with related board or committee papers and materials, which are available for inspection by Board Members.

Furthermore, management provides all Board Members with monthly updates which give a balanced and up-to-date assessment of the Company's performance, position, and prospects in sufficient detail to enable the Board as a whole and each Board Member to discharge his/her duties under the Listing Rules.

All Board Members are entitled to have access to timely information in relation to our business and make further enquiries where necessary, and each also has separate and independent access to management.

In addition, all Board Members have access to the advice and services of the Company Secretary, a full time employee of the Company, who is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The Company Secretary has confirmed that she took more than 15 hours of relevant professional training to update her skills and knowledge in 2019.

Procedures have also been agreed by the Board to enable Board Members to seek independent professional advice at the Company's expense.

Under the Articles of Association, a Board Member shall not vote or be counted in the quorum in respect of any transaction, contract or arrangement in which he/she or any of his/her associates is/are materially interested unless otherwise stated.

We have also arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against them arising from corporate activities. The insurance policy is reviewed every year to ensure fair and sufficient coverage.

2. Clear Division of Responsibilities between Chairman and Chief Executive Officer

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure a balance of power and authority.

Chairman

The Chairman, Mr. Ronnie C. Chan, provides leadership for the Board. He is responsible for ensuring that all Board Members receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable, and that Board Members are properly briefed on issues arising at Board meetings. He also ensures that:

- the Board works effectively and discharges its responsibilities;
- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established; and
- appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

He, at least annually, holds meetings with the INEDs without the other NED and Executive Board Members being present.

He is primarily responsible for drawing up and approving the agenda for each Board meeting. He takes into account, where appropriate, any matters proposed by the other Board Members for inclusion on the agenda, or delegates such responsibility to the Company Secretary.

He encourages all Board Members to make an active contribution to the Board's affairs and takes the lead in ensuring that the Board acts in the best interests of the Company. He encourages Board Members with different views to voice their concerns, allows sufficient time for discussion of issues which the Board is charged to deliberate and reach decisions on.

He promotes a culture of openness and debate by facilitating the effective contribution of NED and INEDs in particular and ensures constructive relations between Executive Board Members, NED and INEDs.

He also arranges suitable training for Board Members to refresh their knowledge and skills.

Chief Executive Officer

The Chief Executive Officer, Mr. Weber W.P. Lo, is a member of the Executive Committee of the Company and is responsible for:

- leading the management team in business operations and in the implementation of policies and strategies adopted by the Board;
- the Company's day-to-day management in accordance with the instructions issued by the Board;
- developing strategic operating plans that reflect the objectives and priorities established by the Board and maintaining operational performance; and
- ensuring the adequacy of risk management, financial and internal control systems, and the conduct of business in conformity with applicable laws and regulations.

The Chief Executive Officer chairs the monthly business review meetings. He also chairs the biweekly "Morning Prayer" meetings of the Company's key executives. Matters concerning the day-to-day operations of the Company are discussed in these meetings. He reports to the Board from time to time on matters of material importance.

To cope with the fast pace of expansion and the ever changing operating environment, management, under the leadership of the Chief Executive Officer, has put great effort into enhancing our operating system as well as our corporate culture with a regular integrity program for our staff. These reflect the way Hang Lung runs its business – We Do It Right.

To become the most admired commercial property developer in Hong Kong and mainland China, the Chief Executive Officer has also formulated and led the management team to implement strategies to strive for sustainable growth.

3. Independence of INEDs

We have received from each of our INEDs an annual confirmation of his/her independence and we consider each INED to be independent.

To further enhance accountability, any appointment of an INED who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. We will state in the notice of the AGM the reason why we consider the INED to still be independent and our recommendation to shareholders to vote in favor of the re-election of such an INED.

4. Appointment, Re-election and Removal

In accordance with the Articles of Association, one-third of the Board Members are required to retire from office by rotation for re-election by shareholders at an AGM, and new appointments to the Board are subject to re-election by shareholders at the next general meeting. In addition, every Board Member is subject to retirement by rotation at least once every three years.

The names of such Board Members eligible and offering themselves for re-election, accompanied by detailed biographies, will be presented in the notice of the general meeting. In relation to the appointment or re-election of INED, we will also state in the notice of the general meeting the identifying process, the reason why we consider the INED is independent, the perspectives, skills and experience that the INED can bring to the Board, and how the INED contributes to diversity of the Board.

The NED and INEDs are appointed for specific terms, which coincide with their expected dates of retirement by rotation at least once every three years.

5. Continuous Professional Development

Each newly appointed Board Member will meet with fellow Board Members and key executives, and will receive a comprehensive, formal and tailored induction on his/her appointment. Subsequently, he/she will receive the briefings and professional development necessary to ensure he/she has a proper understanding of the Company's operations and business and full awareness of his/her responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements, and especially the Company's business and governance policies. The Company Secretary facilitates the induction and professional development of Board Members.

All Board Members are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Chairman also arranges suitable training for Board Members from time to time. In 2019, the Company organized for the Board Members a seminar on global development on ESG for their better understanding and discussion on climate-related risks as well as the interconnectivity of global risks.

Record of training received by each Board Member in 2019 is summarized below:

Board Members	Types of Training
Ronnie C. Chan	A, B, C
Weber W.P. Lo	A, B, C
Ronald J. Arculli	A, B
Nelson W.L. Yuen	A, B, C
Dominic C.F. Ho	A, B, C
Philip N.L. Chen	A, B, C
Andrew K.C. Chan	A, B, C
H.K. Chang	A, B, C
Anita Y.M. Fung	A, B, C
H.C. Ho	A, B, C
Adriel W. Chan	A, B, C

A Attending seminar(s)/forum(s) and/or giving talk(s) relating to the business or directors' duties

B Reading materials relating to the business or directors' duties

C Attending corporate event(s)/visit(s)

(II) Delegation by the Board

The Executive Committee, Audit Committee, and Nomination and Remuneration Committee were formed in 1989, 1999 and 2003 respectively.

1. Executive Committee

The Executive Committee of the Board was formed in 1989. Its members are all the Executive Board Members of the Company, who meet regularly to establish the strategic direction of the Company and to monitor the performance of the management. Clear terms of reference have been adopted by the Board, and guidelines have also been set up for certain issues requiring Board approval. Each of the Committee members has full understanding on determining which issues require a decision of the full Board and which are delegated by the Board to the Committee or management.

2. Audit Committee

An Audit Committee was established by the Board in 1999. The Committee currently comprises entirely INEDs, namely, Mr. Dominic C.F. Ho (Chairman of the Committee), Dr. Andrew K.C. Chan, Prof. H.K. Chang and Ms. Anita Y.M. Fung. They possess appropriate academic and professional qualifications or related financial management expertise.

Under the CG Code, it is required that meetings are held at least two times per year with the external auditor. Separate meetings are also held with the external auditor, in the absence of management, as and when required. The Audit Committee has exceeded the CG Code requirements and held four meetings in 2019 for the purpose of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. Moreover, the Committee met the external auditor four times in 2019 without the presence of management.

The terms of reference detailing the Committee's role and authority, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website, under Audit Committee of Corporate Governance of the Investor Relations section, and the website of HKEx.

The Committee is authorized by the Board to investigate any activity within its terms of reference; to seek any information it requires from any employee (and all employees are directed to co-operate with any requests made by the Committee); to obtain outside legal or other independent professional advice; and to secure the attendance of outsiders with relevant experience and expertise at their meetings if necessary. Sufficient resources are provided to the Committee to discharge its duty.

In 2019, the Audit Committee performed, inter alia, the following:

Relationship with External Auditor, Review of Financial Information and Oversight of Financial Reporting System, Risk Management and Internal Control Systems

- reviewed and obtained an explanation from management and the external auditor for the interim and annual results, including the changes from the previous accounting period, the effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board;
- considered and proposed to the Board the reappointment of KPMG as the Company's external auditor and approved its terms of engagement;
- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company, and approved the scopes and fees for non-audit assignments;
- received and reviewed the internal audit reports from the Internal Auditor;
- held meetings with the external auditor in the absence of management to discuss any material audit issues;
- held meetings with the Internal Auditor in private to discuss material internal audit issues;
- approved the internal audit plan for 2020; and
- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, as well as training for financial reporting and internal audit.

Corporate Governance Functions

- reviewed the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the Code of Conduct, and made recommendations to the Board;
- reviewed and monitored the training and continuous professional development of Board Members; and
- reviewed the Company's compliance with the CG Code and disclosure in annual report on corporate governance and sustainable development.

The Audit Committee also reviewed ESG related risks and confirmed that the ESG risk management and internal control systems were in place and remained effective throughout 2019.

In view of our rapid expansion in mainland China, the Audit Committee also meets quarterly to review and monitor the progress and construction costs of Mainland development projects and major renovation projects. The Cost and Controls Department reports regularly in these Audit Committee meetings, and continues to provide an effective check and balance in the control of our sizeable capital expenditures spending and investment, as well as the quality and safety aspects of the projects.

3. Nomination and Remuneration Committee

A Nomination and Remuneration Committee, set up in 2003, now comprises entirely INEDs, namely, Mr. Ronald J. Arculli (Chairman of the Committee), Mr. Dominic C.F. Ho and Prof. H.K. Chang. Regular reviews of significant changes to the salary structure of the Group and the terms and conditions affecting Executive Board Members and senior management are conducted. The Committee met twice in 2019 to review, inter alia, the composition of Board Members and Board Members' remuneration.

The existing terms of reference of the Committee has contained the criteria and principles for nomination of Board Members. In view of the amendments to the CG Code which took effect from January 1, 2019, the terms of reference of the Committee has been revised to formally regard those criteria and principles as the nomination policy for Board Members. The updated terms of reference of the Committee can be accessed on both our website, under Nomination and Remuneration Committee of Corporate Governance of the Investor Relations section, and the website of HKEx.

The major works performed by the Committee in 2019 included the following:

- reviewed the Board Diversity Policy and its implementation;
- reviewed the structure, size and diversity of the Board;
- assessed the independence of the INEDs;
- made recommendations to the Board on the selection of individuals nominated for directorship with reference to qualifications and related expertise;
- made recommendations to the Board on re-election of retiring Board Members at the AGM;
- made recommendations to the Board on the Company's remuneration policy and structure for all Board Members and senior management;
- determined the remuneration packages for individual Executive Board Members and senior management, including benefits in kind, pension rights, and compensation payments;
- made recommendations to the Board on the remuneration of the NED and INEDs; and
- reviewed the Company's share option scheme and grant of share options.

In the nomination policy, the Committee will:

- review the structure, size and diversity of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become Board Members and select or make recommendations to the Board. In identifying suitable candidates, the Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board; and
- make recommendations to the Board on the appointment or re-appointment of the Board Members and succession planning for Board Members, in particular the Chairman of the Board and the Chief Executive Officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience, and diversity needed in the future.

The remuneration package of Executive Board Members and senior management, including discretionary bonuses and share options, is based on the following criteria:

- individual performance;
- skills and knowledge;
- involvement in the Group's affairs;
- achievement of business targets; and
- the performance and profitability of the Group.

The Committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group.

The Committee obtains benchmark reports for the evaluation of market trends and the competitiveness of the remuneration being offered to Board Members and senior management. Sufficient resources are provided to the Committee to discharge its duties. The Committee may consult the Chairman and the Chief Executive Officer about remuneration proposals of other Executive Board Members and has access to independent professional advice if necessary.

Details of remuneration payable to members of the senior management (which includes Executive Board Members only) are disclosed in Note 7 to the Financial Statements.

4. Management Functions

Senior Management means our Executive Board Members. Their duties are explained in the paragraph headed Executive Committee above. Key executives are responsible for day-to-day operations and the administration function of the Group under the leadership of the Executive Board Members. The Board has given clear directions to management as to matters that must be approved by the Board before decisions are made on behalf of the Company. The types of decisions to be delegated by the Board to management include implementation of strategies and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. These arrangements are reviewed periodically to ensure that they remain appropriate to our needs.

(III) Securities Transactions and Share Interests

1. Securities Transactions

We have set out guidelines regarding securities transactions by Board Members under "Transactions in the Company's Shares" in our Code of Conduct according to the required standard set out in the Model Code. The Company has made specific enquiries with all Board Members and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Board Members' securities transactions.

The Company has also set out guidelines regarding securities transactions by relevant employees who, because of their office in the Company or its subsidiary, are likely to be in possession of inside information. The relevant employees are also requested to comply with the required standard set out in the Model Code. All the relevant employees are reminded of the compliance of the guidelines every six months.

2. Share Interests

Details of Board Members' interests in shares of the Company and HLG as at December 31, 2019 are as follows:

	The Company		Hang Lung Group Limited
Board Members	Number of Shares	Number of Shares under Option	Number of Shares
Ronnie C. Chan	16,330,000	24,025,000	11,790,000
Weber W.P. Lo	–	12,750,000	–
Ronald J. Arculli	724,346	–	1,089,975
Nelson W.L. Yuen	8,000,000	6,500,000	–
Dominic C.F. Ho	–	–	–
Philip N.L. Chen	–	24,000,000	–
Andrew K.C. Chan	–	–	–
H.K. Chang	–	–	–
Anita Y.M. Fung	–	–	–
H.C. Ho	–	13,600,000	–
Adriel W. Chan (Note)	2,634,270,340	4,400,000	508,421,580

Note

Mr. Adriel W. Chan was deemed to be interested in 2,634,270,340 shares of the Company and 508,421,580 shares of HLG as he was a discretionary beneficiary of a family trust. The family trust held 508,421,580 shares (representing 37.34% interests) of HLG and held/was deemed to be interested in 2,634,270,340 shares of the Company.

(IV) Accountability and Audit

1. Financial Reporting

Board Members acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the Listing Rules, the Companies Ordinance, and also the accounting principles and practices generally accepted in Hong Kong. Appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. A statement by the external auditor, KPMG, about its reporting responsibilities is included in the Independent Auditor's Report on the Company's consolidated financial statements.

The Board Members endeavor to ensure a balanced, clear and coherent assessment of the Company's position and prospects in annual reports, interim reports, inside information announcements, and other disclosures required under the Listing Rules and other statutory requirements.

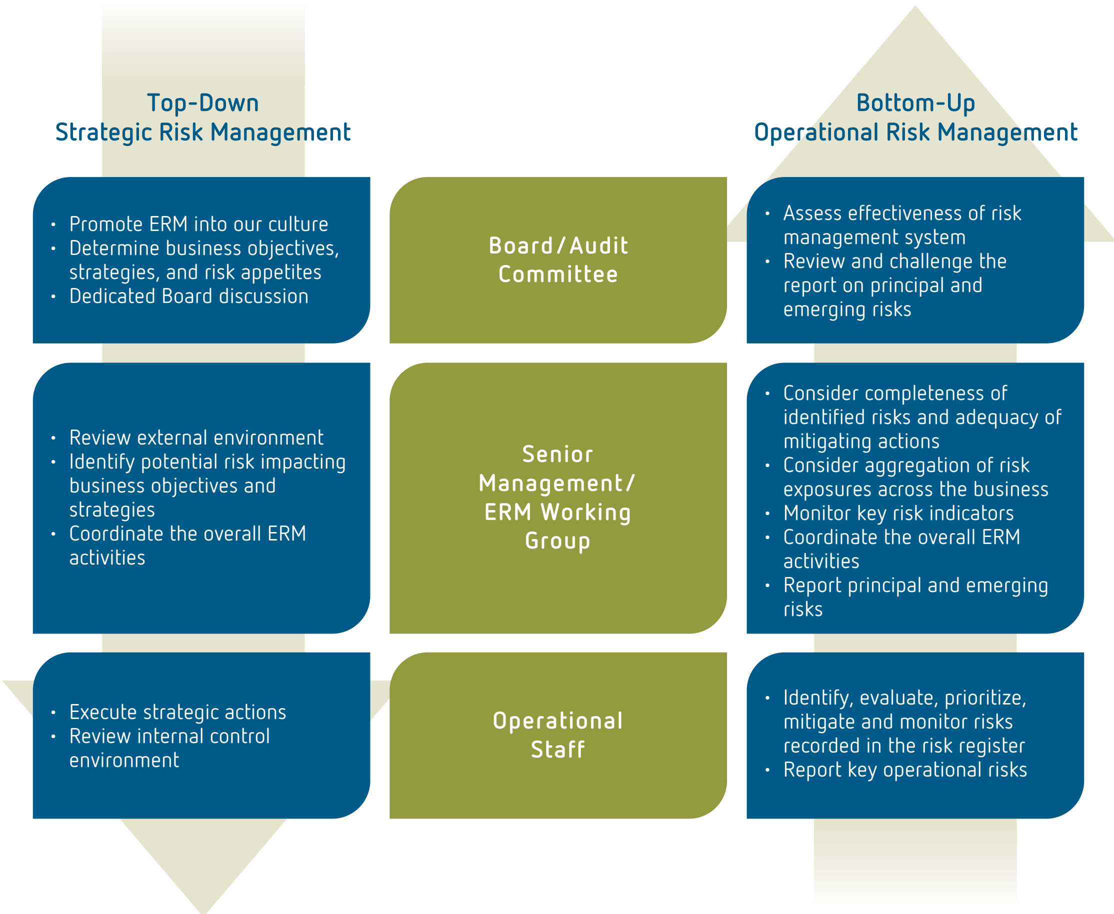
2. Risk Management and Internal Controls

Risk Management Framework

The Board has overall responsibility for risk management and for determining the nature and extent of significant risks it is willing to take to achieve the Company's strategic objectives. The Audit Committee is delegated to oversee the effectiveness of our risk management system. Management is tasked with the design, implementation, and maintenance of a sound and effective risk management framework with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) principles, which is crucial in delivering our corporate strategies and ensuring sustainability.

Risks are inherent in every sector of our business. It is important to have a risk-aware culture throughout the organization, as well as a systematic approach to identify and assess risks such that they can be reduced, transferred, avoided or understood. We are committed to continuously enhancing our risk management framework, linking it to our corporate strategies as well as integrating it into our day-to-day operations and decision-making. Under its approved terms of reference, the ERM Working Group (comprising an Executive Board Member as Chairman and unit heads from all business units and support divisions) has been established as our second line of defense to coordinate and oversee risk management activities, whilst operational management remains the first line of defense. The Internal Audit Department, who reports directly to the Audit Committee on risk management and internal control matters, acts as the third line of defense in this system.

The Company takes proactive measures to identify, evaluate, and manage significant risks arising from our business and from the constantly changing business environment at different levels within the organization. This integrated approach combines a top-down strategic view with a complementary bottom-up operational process as illustrated below:



A list of principal risks, covering both strategic and operational risks as identified by our risk assessment process, is compiled with reference to their residual risk impact and likelihood (after taking into consideration the mitigation controls). Action plans are developed, and risk ownership is assigned for each principal risk. The risk owners coordinate the mitigation measures to ensure proper implementation of these action plans. They are also required to continuously monitor, evaluate, and report on risks for which they bear responsibility. Mitigation controls are subject to internal audit review and testing.

The Company has continued its program to formalize and fine-tune the risk management system for operating sites and sites under development. Various risk management workshops were conducted for local management teams not only to further promote risk awareness across all levels of the organization, but also to engage them in the risk assessment process. When compiling their risk registers, each site will identify key risks and mitigation actions, and rate the residual risks according to the likelihood and impact parameter at site level (scaled down from enterprise level). Top risks at operational level were then extracted from each site's detailed risk register and reported to the Audit Committee.

Through this integrated top-down and bottom-up risk review processes, which enables risks identification and prioritization throughout the Company, we maintain effective lines of communication to ensure timely escalation of potential risks and initiation of mitigating actions to manage them.

The principal risks that the Company faces may not change significantly from year to year, although the magnitude and significance of these risks can and do vary. Our ongoing review of the principal risks focuses on how changes might arise and how our controls need to be adapted in response to evolving business conditions and organizational changes. The ERM Working Group takes a robust assessment of the principal risks and uncertainties that the Company is exposed to.

The unprecedented social unrest in Hong Kong beginning in June 2019 brought varying degree of property damages and service disruption to our malls, resulting in an immediate to medium-term impact to our leasing revenue and incurring additional expenses. To minimize impact and mitigate risks to our properties and service operations, cross-departmental emergency and crisis handling capabilities have been stepped up to ensure round-the-clock deployment and communications with stakeholders. Safety of stakeholders including our staff remains our highest priority. Crisis management protocols were being stepped up as part of the effort to strengthen preparedness and alertness of our staff. In view of the retail headwind, our leasing team reached out and offered assistance to individual tenants who were impacted by reduced customer footfall and revenue.

The environmental impact of climate change was identified as an emerging risk, and a directors' training titled "Global Development on ESG" was organized for our Board members' better understanding and discussion of climate-related risks, as well as the interconnectivity of global risks. Meanwhile, risks from changing consumer behavior or taste and fast-paced innovation in technology continued to present challenges to our business strategy. These principal risks and their respective mitigating actions are covered in the Risk Management section of this annual report.

As the second line of defense, the ERM Working Group is responsible for overseeing risk management activities across all functions. In 2019, it met four times and achieved the following:

- Reviewed the effectiveness of the Company's ERM framework;
- Reviewed risk assessment criteria to ensure that they were appropriately defined and continued to be relevant in light of the Company's business and risk profile;

- Organized various workshops for management and operational staff to promote the ERM framework and to embed a risk-aware culture for monitoring and reporting risks within the Company;
- Identified and evaluated the Company's principal risks and key emerging risks;
- Evaluated the comprehensiveness of identified risks at operational level;
- Challenged the risk owners on the mitigation controls and their effectiveness;
- Analyzed root causes and checked risk enforcement in key areas where controls were previously inadequate or ineffective;
- Examined crisis management capacity for handling large-scale, sudden operational adversities; and
- Compiled relevant and timely risk reports including "deep-dives" for the Board and the Audit Committee.

ERM Working Group Primary Duties
• Ensure appropriate guidelines and procedures applicable to risk assessment are in place
• Establish risk appetite and tolerance level
• Ensure risk assessment criteria are defined
• Coordinate and maintain a register of principal risks
• Facilitate risk identification, including key new risks and risk changes
• Assist in evaluation of the Company's principal risks and key emerging risks
• Facilitate management in assigning roles and responsibilities for risk control and ownership

During the year, an external independent assessment on our ERM framework was conducted by one of the leading accounting firms, who confirmed that our ERM framework offers a structured approach to risk management and is fit for the Company's size and needs. It further affirms that our ERM framework is generally better established than the market norm, as compared to other non-financial services sector companies listed in Hong Kong, especially in risk assessment, measurement, management, monitoring, reporting and insights.

The Internal Audit Department, as the third line of defense, plays an important role in assessing the effectiveness of the risk management system, and reports regularly to the Audit Committee on key findings as well as making recommendations for improvement and tracking on their implementation measures.

The Board and the Audit Committee reviewed the Company's top and emerging risks, and conducted an annual review of the effectiveness of the ERM framework. Taking into consideration the principal risks and mitigating actions, the Board believes that the Company has the ability to adequately respond to changes to our business and the external environment.

Internal Control Framework

The Board is responsible for maintaining an effective internal control system. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and but not absolute assurance against material misstatement or loss.

Specifically, our internal control system monitors the Company's overall financial position and ensures it is accurately reflected in its financial and management reporting; safeguards its assets against major losses and misappropriation; provides reasonable assurance against material fraud and error; and efficiently monitors and corrects non-compliance.

To ensure efficient and effective operations in our growing business units and functions, relevant internal control policies and procedures, committees, and working groups are in place in order to achieve, monitor, and enforce internal controls. These policies and procedures are reviewed from time to time and updated where necessary. All employees are made aware of the policies and procedures in place, with comprehensive staff communications and training programs to ensure understanding and awareness.

The Audit Committee is delegated to oversee the effectiveness of internal controls, while management is responsible for designing, implementing, and maintaining an effective internal control system with reference to the COSO principles. In particular, proper policies and procedures governing the activities of the Executive Committee, Board Members, executives, and senior staff, such as delegation of authority, approval of annual and mid-year budgets for all capital, revenue, and expenditure items, etc., have been put in place. Management also continuously reviews, updates, and refines the internal control system to meet anticipated future challenges.

Our Internal Audit Department is independent from our operations and accounting functions. The Director of Corporate Audit reports directly to the Audit Committee. A risk-based internal audit program is approved by the Audit Committee each year. Based on the audit program, the internal auditors perform assessment of risks and testing of controls across all business and support units of the Company in order to provide reasonable assurance that adequate controls and governance are in operation. In line with the Company's zero tolerance for fraud and bribery, the internal auditors will perform relevant investigations if fraud or irregularities are uncovered or suspected.

In 2019, the Audit Committee met quarterly to discuss internal audit issues with the Internal Auditor, as well as to enquire on financial and internal control matters with the external auditor. The Audit Committee held four direct discussions with the external auditor in the absence of management. The Audit Committee reported to the Board on key issues arising from these meetings.

There were no significant control failings or weaknesses identified in 2019. Our internal audit function has been operating effectively.

Annual Assessment

With the confirmation of the management and the foregoing review by the Audit Committee covering all material controls, including financial, operational and compliance controls, and risk management functions of the Company and its subsidiaries for the financial year ended December 31, 2019, the Board concluded that effective and adequate risk management and internal control systems had been in operation.

The level of resources, staff qualifications and experience, training programs, and budget of the Company's internal audit, accounting and financial reporting functions were assessed and considered adequate.

3. Code of Conduct

The Company adopted a corporate Code of Conduct in 1994 and has maintained it with regular reviews and updates from time to time as necessary.

The Code of Conduct clearly spells out the Company's policy regarding legal requirements, conflicts of interest, the handling of confidential information and company property, the use of information and communication systems, personal social media activities, our whistleblowing policy, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers and consumers, employment practices, and responsibilities to the community. In essence, it details the Group's philosophy in running its business and acts as a benchmark for all staff and suppliers to follow.

In order to monitor and enforce compliance with the Code of Conduct, functional managers are responsible for ensuring their subordinates fully understand and adhere to the standards and requirements as stipulated. Any violation thereof will result in the employee being disciplined, including termination of employment or reporting to appropriate authorities if necessary. The

Executive Board Members will also answer directly to any Board Member for impartial and efficient handling of complaints received from all shareholders and potential shareholders, customers and consumers, suppliers and contractors, and our employees. As part of our commitment to good governance, all executive staff are required to submit a signed declaration of compliance with the Code of Conduct regarding Transactions in the Company's Shares on a half-yearly basis.

A well-defined whistleblowing mechanism has been put in place for our employees and other related third parties such as contractors and tenants. It is designed to encourage them to confidentially raise any serious concerns about misconduct, fraudulent activities, or malpractices in any matter related to the Group. An email account (whistleblowing@hanglung.com) has been set up for this purpose. All reported cases are addressed to the Director of Corporate Audit directly and investigated by the Internal Audit Department in complete confidence. Our Internal Audit Department monitors and reports cases to the Audit Committee on a half-yearly basis.

All staff are made aware of issues pertaining to integrity and the Company's zero-tolerance policy for misconduct through the Code of Conduct, policies, and procedures. Launched in 2013, the Hang Lung Integrity Program was established to enforce the highest standards of integrity and honesty from every process and every employee in Hong Kong and mainland China. To remind every employee of the importance of integrity, we have launched a new Integrity Digital Learning Program for all employees. In 2019, over 125,000 training hours were delivered to our employees, of which about 4,660 training hours were delivered as part of the program.

In addition, to make sure that all operations are managed in accordance with a high standard of professional practice and corporate governance, all employees are reminded of the policy governing conflict of interest situations every six months. All executive staff are also required to complete and sign a declaration form every six months declaring their interest (if any), directly or indirectly, with the Company, subsidiaries or associated companies.

4. Inside Information

The Company has adopted a Policy on Disclosure of Inside Information since 2013 setting out the procedures and controls for handling and dissemination of inside information in compliance with the SFO and the Listing Rules, including:

- disclosure of inside information as soon as reasonably practicable under the applicable laws and regulations;
- publication of interim and annual results within one month from the end of accounting periods to minimize the risk of leakage;
- conduct of its affairs with close adherence to the "Guidelines on Disclosure of Inside Information" issued by Securities and Futures Commission;
- authorizing designated person(s) as spokespersons for communications with stakeholders;
- imposing a strict prohibition on the unauthorized disclosure and use of inside information in its Code of Conduct; and
- reminders to the Board Members and staff members (through key executives) of the compliance of policy every six months.

5. Independence of External Auditor

KPMG conducts audits on the annual consolidated financial statements of the Company, and confirms every year its independence and objectivity. To ensure the independence of KPMG,

- the Audit Committee regularly reviews and monitors the independence of KPMG;
- the Audit Committee reviews the audit scope and non-audit services and approves the relevant fees;
- the policy on engaging the external auditor for non-audit services is in place and regularly reviewed by the Audit Committee. KPMG will confirm its independence before accepting the engagement of non-audit services; and

- the Audit Committee considers and proposes to the Board every year for the re-appointment of KPMG as the auditor.

KPMG confirms its independence with regard to The Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants regarding auditor independence.

Total remuneration in respect of services provided by KPMG is as follows:

	Year ended December 31, 2019 HK$ (in million)	Year ended December 31, 2018 HK$ (in million)
Statutory audit services	9	8
Non-audit services	2	3

(V) Communication with Stakeholders

1. Shareholders

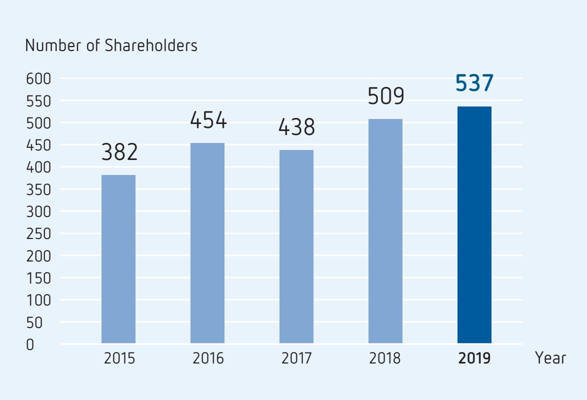
The Board has a shareholders communication policy setting out strategies to promote effective communication with shareholders, with the aim of ensuring that shareholders are provided with information about the Company to enable them to engage actively with the Company and to exercise their rights as shareholders in an informed manner. The policy is regularly reviewed to ensure its effectiveness.

Chairman's Letters to Shareholders & AGMs

Our commitment to improve transparency and enhance communications with shareholders is evidenced by our Chairman's Letters to Shareholders. These Letters are personally written by our Chairman. The Letters are included in the annual reports and interim reports. They have provided an in-depth discussion and analysis on the Group's business, as well as the market and economic outlook.

Our AGM provides a good opportunity for communication between the Board and shareholders. The chairmen of the Board and of its committees are normally present to answer queries raised by shareholders. The external auditor also attends and reports to shareholders at the AGM every year. Notice of the AGM and related papers are sent to shareholders at least 20 clear business days before the meeting. Each separate issue is proposed by a separate resolution by the Chairman. The meeting enjoys strong participation from shareholders.

Shareholders Participation in AGMs is as follows:



In addition to the Chairman's Letter to Shareholders, the Chairman uses the AGM as an opportunity to open a dialogue with shareholders and to elaborate on the outlook of the Group and its business strategies.

2019 AGM

Our last AGM was held on April 30, 2019 at Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong. The meeting was attended by 537 shareholders present in person or by proxy. At the meeting, the Chairman had demanded a poll on each of the resolutions submitted for voting, and the shareholders were provided with detailed procedures for conducting the poll.

The resolutions tabled at the 2019 AGM included:

- the adoption of the financial statements;
- the declaration of a final dividend;
- the re-election of Board Members;
- the re-appointment of the auditor; and
- the renewal of general mandates.

All these resolutions were voted on by poll, and the results of poll voting were posted on the websites of our Company and of HKEx in the evening of the same day.

There are no changes in the Articles of Association, which is available on our website and the website of HKEx, in 2019.

The Board confirms that there are no changes proposed to the Articles of Association at the forthcoming AGM to be held on April 29, 2020. The important shareholders' dates for the coming financial year, which include the Board meetings for considering the payments of interim and final dividends for the year ending December 31, 2020, and the AGM, are expected to be held in around late July 2020, late January 2021, and in April 2021 respectively.

Procedure for Shareholders to Convene General Meetings

Shareholder(s) representing at least 5% of the total voting rights of all the shareholders of the Company can make a request to convene a general meeting pursuant to the Companies Ordinance. The request must state the business to be dealt with at the meeting, signed by the relevant shareholder(s) and deposited at our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Put Forward Proposals in General Meetings

Furthermore, the Companies Ordinance provides that (i) shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders of the Company, or (ii) at least 50 shareholders entitled to vote can put forward proposals for consideration at a general meeting of the Company by sending a request in writing to our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Propose a Person for Election as a Board Member

According to the Articles of Association, if any shareholder(s) representing not less than 10% of the total voting rights of all the shareholders of the Company wish(es) to propose a person (other than a retiring Board Member) for election as a Board Member (the Candidate) at a general meeting of the Company, the following documents must be lodged at our registered office:

(i) a written notice of such a proposal duly signed by the shareholder(s) concerned; and

(ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected.

The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such an election, and end no later than seven days prior to the date of said meeting.

Enquiries from Shareholders

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered address or by email to our Company at ir@hanglung.com. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings or entitlement to dividend. Relevant contact details are set out under the Listing Information section of this annual report.

2. Investors

Details of shareholders by domicile as at December 31, 2019 are as follows:

	Shareholders		Shareholdings	
Domicile	**Number**	**%**	**Number of Shares**	**%**
Hong Kong	2,806	94.22	4,488,242,317	99.79
Mainland China	52	1.75	3,847,554	0.08
Macau	8	0.27	387,433	0.01
Taiwan	2	0.07	593	0.00
Australia and New Zealand	8	0.27	13,885	0.00
Canada and United States of America	44	1.48	2,634,859	0.06
South East Asia	47	1.58	2,575,267	0.06
United Kingdom	7	0.23	13,400	0.00
Others	4	0.13	3,362	0.00
TOTAL	**2,978**	**100.00**	**4,497,718,670**	**100.00**

Details of shareholders by holding range as at December 31, 2019 are as follows:

	Shareholders*		Shareholdings*	
Holding Range	**Number**	**%**	**Number of Shares**	**%**
1 - 1,000 shares	1,412	47.41	624,902	0.01
1,001 - 5,000 shares	771	25.89	2,171,903	0.05
5,001 - 10,000 shares	278	9.34	2,263,294	0.05
10,001 - 100,000 shares	429	14.41	14,735,176	0.33
Over 100,000 shares	88	2.95	4,477,923,395	99.56
TOTAL	**2,978**	**100.00**	**4,497,718,670**	**100.00**

* incorporating, in their respective shareholdings range, 360 participants of Central Clearing and Settlement System holding a total of 2,839,044,560 shares registered in the name of HKSCC Nominees Limited

Based on the information that is publicly available to the Company and within the knowledge of the Board Members as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

We are committed to disclosing relevant information on our activities to our shareholders and investors through regular analysts' briefings, press conferences and press releases, emails and our website, apart from through our annual and interim reports. All enquiries and proposals received from shareholders, investors, the media or the public are responded to by Executive Board Members, the Company Secretary or appropriate key executives.

The Company's information is accessible to all via our website. Besides providing traditional financial data, our website contains the most current information including properties available for sale and leasing, the latest number of issued shares, updated substantial shareholders' interests in shares, corporate brochures, newsletters, details of major corporate events, and frequently asked questions.

Moving Forward

To become the most admired commercial property developer in Hong Kong and mainland China, we will continue to strive for sustainable growth by upholding Hang Lung core values – strong governance and the highest standard of integrity and honesty in Hong Kong and every city where the Group is operating its world-class projects. We are confident of offering our stakeholders a highly transparent and well-governed corporation.

PROFILE OF THE DIRECTORS

Mr. Ronnie Chichung Chan GBM

Chairman

Aged 70, Mr. Chan joined the Hang Lung group in 1972, was appointed to the Board of Hang Lung Properties Limited in 1986, and became Chairman in 1991. He also serves as Chairman of Hang Lung Group Limited. Mr. Chan is Vice-President of The Real Estate Developers Association of Hong Kong, Chairman Emeritus of Asia Society and Chairman of its Hong Kong Center. He is also a former Chairman of the Executive Committee of One Country Two Systems Research Institute, and former Vice President and former Advisor of the China Development Research Foundation in Beijing. Mr. Chan sits on the governing or advisory bodies of several think-tanks and universities, including Peterson Institute for International Economics, The Hong Kong University of Science and Technology, and University of Southern California, USA, where he received his MBA. Mr. Chan is a Fellow of the American Academy of Arts and Sciences. He is the father of Mr. Adriel Chan, an Executive Director of the Company.

Mr. Weber Wai Pak Lo

Chief Executive Officer

Aged 49, Mr. Lo joined the Company and its listed holding company, Hang Lung Group Limited, as Chief Executive Officer Designate in May 2018, and became Chief Executive Officer in July 2018. Mr. Lo has more than 25 years of experience in business management across the banking and fast-moving consumer goods sectors in Hong Kong and mainland China. Mr. Lo graduated from The University of Hong Kong in 1993 with a Bachelor of Social Sciences degree.

Mr. Ronald Joseph Arculli GBM, CVO, GBS, OBE, JP

Independent Non-Executive Director

Aged 81, Mr. Arculli joined the Board in 1980. He is a practicing solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. Mr. Arculli was a Non-Official Member of the Executive Council of the HKSAR from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He was the Independent Non-Executive Chairman of Hong Kong Exchanges and Clearing Limited from April 2006 to April 2012, and remained as an Independent Non-Executive Director until his retirement in April 2013. Mr. Arculli has a distinguished record of public service and has served on numerous government committees and advisory bodies. He is a Non-Executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited, Tsim Sha Tsui Properties Limited, HK Electric Investments Manager Limited (as trustee-manager of HK Electric Investments) and HK Electric Investments Limited (all are listed companies except HK Electric Investments Manager Limited).

Mr. Nelson Wai Leung Yuen

Independent Non-Executive Director

Aged 69, Mr. Yuen joined Hang Lung in 1978, became an Executive Director of the Company in 1986, and was appointed as Managing Director of the Company and its holding company, Hang Lung Group Limited, in 1992 until he retired in July 2010. He became a Non-Executive Director of the Company in March 2011 and was re-designated as Independent Non-Executive Director in November 2014. Mr. Yuen is a graduate of The University of Manchester, UK and a Fellow of The Institute of Chartered Accountants in England and Wales.

Mr. Dominic Chiu Fai Ho

Independent Non-Executive Director

Aged 69, Mr. Ho joined the Board as an Independent Non-Executive Director in April 2008. He retired as co-chairman of KPMG, China and HKSAR in March 2007. Mr. Ho obtained his degrees at the University of Houston in the United States and is a member of the American Institute of Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He was a past member of the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption and of the Insurance Advisory Committee, both in Hong Kong. Mr. Ho is an Independent Non-Executive Director of Singapore Airlines Limited and DBS Bank (Hong Kong) Limited, and the Non-Executive Chairman of DBS Bank (China) Limited.

Mr. Philip Nan Lok Chen

Non-Executive Director

Aged 64, Mr. Chen joined the Company and its listed holding company, Hang Lung Group Limited, as Chief Executive Officer in 2010 until he retired in July 2018. Upon his retirement, he was re-designated as Non-Executive Director of the Company, and was appointed as Adviser to Chairman until July 2019. Mr. Chen has more than 30 years of management experience, mostly in the aviation industry, acquiring a wealth of experience in Hong Kong, Mainland China and beyond. Mr. Chen graduated from the University of Hong Kong in 1977 with a Bachelor of Arts degree and holds a Master's degree in Business Administration from the same university.

Dr. Andrew Ka Ching Chan BBS, JP

Independent Non-Executive Director

Aged 70, Dr. Chan joined the Board as a Non-Executive Director in October 2014 and was re-designated as Independent Non-Executive Director in December 2015. He is a Member of the Trustees' Board and Senior Consultant of the global Arup Group, one of the world's foremost multi-disciplinary engineering consultants. Previously, Dr. Chan was the Deputy Chairman of Arup Group and retired in October 2014. He is an expert in civil and geotechnical engineering with over 40 years of experience in the engineering profession, and is distinguished for his leadership in the creation, design and delivery of many innovative and award-winning building projects as well as major infrastructure schemes in many cities in Asia. Dr. Chan is a past President and Gold Medallist of The Hong Kong Institution of Engineers, Founding Chairman of the Hong Kong Green Building Council, Honorary Fellow of the Hong Kong University of Science and Technology, Fellow and past President of the Hong Kong Academy of Engineering Sciences, and Fellow of the Royal Academy of Engineering, UK's national academy. He obtained his PhD degree from the University of Cambridge in Soil Mechanics. Dr. Chan was appointed Justice of the Peace in 2006 and awarded the Bronze Bauhinia Star in 2012.

Prof. Hsin Kang Chang GBS, JP

Independent Non-Executive Director

Aged 79, Prof. Chang joined the Board as an Independent Non-Executive Director in April 2015. He became an Honorary Professor in 2006 and Yeh-Lu Xun Chair Professor from 2008 to 2015 at Peking University, and an Honorary Professor at Tsinghua University in 2007. Prof. Chang was the President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was Dean of the School of Engineering at the University of Pittsburgh in the US from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994, and Chairman of the Department of Biomedical Engineering at the University of Southern California in the US from 1985 to 1990. Prof. Chang taught at several major universities in North America and served in a number of scholarly societies and public advisory bodies in the US, serving as President of Biomedical Engineering Society of the US in 1988-89. In Hong Kong, he was Chairman of the Cultural and Heritage Commission from 2000 to 2003, a member of the Council of Advisors on Innovation and Technology from 2000 to 2004 and a member of Judicial Officers Recommendation Commission from 1999 to 2005. Prof. Chang is a Fellow of the Royal Academy of Engineering of the United Kingdom, Member of International Eurasian Academy of Sciences, Chévalier dans l'Ordre National de la Légion d'Honneur and Commandeur dans l'Ordre des Palmes Académiques of France. He obtained his Bachelor's degree in civil engineering from National Taiwan University in 1962, Master's degree in structural engineering from Stanford University in the US in 1964 and Ph.D degree in biomedical engineering from Northwestern University in the US in 1969. Prof. Chang is an Independent Non-Executive Director of HKT Trust and HKT Limited. He was an Independent Non-Executive Director of Brightoil Petroleum (Holdings) Limited. Prof. Chang was appointed Justice of the Peace in 1999 and awarded the Gold Bauhinia Star in 2002.

Ms. Anita Yuen Mei Fung BBS, JP

Independent Non-Executive Director

Aged 59, Ms. Fung joined the Board as an Independent Non-Executive Director in May 2015. She is former Group General Manager of HSBC Holdings plc and former Chief Executive Officer Hong Kong of The Hongkong and Shanghai Banking Corporation Limited. Ms. Fung has held a number of positions with key financial bodies in Hong Kong and has been actively promoting the development of the financial markets of Hong Kong as well as other regions. She is a former Member of the Financial Infrastructure Sub-Committee of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority. Ms. Fung also serves on a number of public bodies and advisory bodies including a Director of The Hong Kong Mortgage Corporation Limited, a Member of the Museum Advisory Committee and a Member of the Judicial Officers Recommendation Commission, and previously served as an Independent Non-Executive Member of the Board of Airport Authority Hong Kong, a Non-Official Member of Hong Kong Housing Authority and a Member of the Board of West Kowloon Cultural District Authority. She is also a Trustee of Asia Society Hong Kong Center, an Honorary Professor of the School of Economics and Finance of the University of Hong Kong, and a Court Member of The Hong Kong University of Science and Technology and its former Council Member. Ms. Fung is an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited, China Construction Bank Corporation and Westpac Banking Corporation, and former Non-Executive Director of Bank of Communications Co., Ltd and Hang Seng Bank, Limited. She obtained her Bachelor's degree in Social Science from The University of Hong Kong and Master's degree in Applied Finance from Macquarie University, Australia. Ms. Fung was awarded the Bronze Bauhinia Star in 2013 and appointed Justice of the Peace in 2015.

Mr. Hau Cheong Ho

Chief Financial Officer

Aged 60, Mr. Ho joined the Group in 2008. He was appointed to the Board of the Company and of its listed holding company, Hang Lung Group Limited, in 2010. Mr. Ho possesses over 30 years of management experience covering a wide range of industries in England, Australia, Hong Kong and Mainland China. He qualified as a chartered accountant in England and Wales and Australia and holds an MBA from the University of Melbourne, Australia and a Bachelor of Commerce Degree in Accounting from the University of Birmingham, UK.

Mr. Adriel Wenbwo Chan

Executive Director

Aged 37, Mr. Chan joined the Group in 2010. He was appointed to the Board of the Company and of its listed holding company, Hang Lung Group Limited, in 2016. He is now mainly responsible for the Development and Design Department, Project Management Department (including its asset assurance & improvement team) and Cost & Controls Department. Mr. Chan is also the chairman of the Sustainability Steering Committee and a member of Enterprise Risk Management Working Group, among his other responsibilities within the Group. Prior to joining the Group, he worked in finance, audit, advisory, and risk management fields. Mr. Adriel Chan is a member of the executive committee of The Real Estate Developers Association of Hong Kong, the advisory council of The Hong Kong University of Science and Technology (the "HKUST") Business School, and overseers committee of Morningside College of The Chinese University of Hong Kong. He holds an Executive Master of Business Administration degree jointly awarded by the Kellogg School of Management at Northwestern University, USA and the HKUST, and a Bachelor of Arts degree in International Relations from University of Southern California, USA. Mr. Chan is a son of Mr. Ronnie Chan, Chairman of the Group.

PROFILE OF KEY EXECUTIVES

Mr. Norman Ka Ngok Chan

Executive Director

Mr. Chan joined the Group in 2013. He is responsible for formulating and implementing strategies and business plans for the development of the Group's property leasing and management in Hong Kong and on the Mainland. Mr. Chan possesses over 35 years of experience in property leasing and management. He holds a Bachelor of Commerce degree from The University of Alberta, Canada. He is a Chartered Accountant of The Institute of Chartered Accountants of Alberta, a Fellow Member and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Ms. Linda Wing Sze Chan

Director – Marketing

Ms. Chan joined the Group in 2017. She possesses over 20 years of experience in marketing in Hong Kong and on the Mainland. She holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong.

Mr. Gabriel Kai Wah Cheung

Director – Cost & Controls

Mr. Cheung joined the Group in 2013. He possesses over 30 years of experience in cost & controls management in Hong Kong and on the Mainland. He holds a Master of Construction Management degree from the University of New South Wales, Australia. Mr. Cheung is a Registered Professional Surveyor (Quantity Surveying) of Hong Kong, a Fellow of the Hong Kong Institute of Construction Managers, a Fellow of the Royal Institution of Chartered Surveyors, a Fellow of the Hong Kong Institute of Surveyors, a Member of the Chartered Institute of Arbitrator and a Member of the Association of Cost Engineers. He is also an Honorary Fellow of Shenzhen Cost Engineer Association and holds the qualification for Registered Cost Engineer in mainland China.

Ms. Bella Peck Lim Chhoa

Director – Leasing & Management

Ms. Chhoa joined the Group as Company Secretary, General Counsel and Assistant Director – Corporate Affairs in 2011 overseeing legal and human resources matters, and was appointed as Director – Leasing & Management in 2017. She currently oversees the leasing and management of the Hong Kong portfolios. Ms. Chhoa is a solicitor qualified to practice in Hong Kong. She holds a Master of Business Administration degree from The Chinese University of Hong Kong and a Bachelor degree in Law from The University of Hong Kong.

Mr. Mikael Jaeraas

Director – Central Retail Leasing & Management

Mr. Jaeraas joined the Group in 2016. He possesses 16 years of experience in international retail business and supply chain development. He holds a Master of Social Science degree in Business Administration from Lund University, Sweden.

Mr. Chuk Fai Kwan

Director – Corporate Communications & Investor Relations

Mr. Kwan joined the Group in 2011. He possesses over 30 years of experience in public relations and corporate affairs. He holds an Executive MBA degree from The University of Western Ontario, Canada, and a Bachelor of Arts degree from The University of Hong Kong.

Mr. Peter Ting San Leung

Director – Project Management

Mr. Leung joined the Group in 2014. He possesses over 30 years of experience in developing and managing projects on the Mainland and overseas. He holds a Postgraduate Diploma in Construction Project Management from The University of Hong Kong, a Bachelor of Architecture degree and a Bachelor of Science (Architecture) degree from McGill University, Canada. He is also a Registered Architect in Hong Kong, a Member of The Hong Kong Institute of Architects and holds a PRC Class 1 Registered Architect Qualification.

Mr. Moses Woon Tim Leung

Director – Development & Design

Mr. Leung joined the Group in 2007. He possesses over 25 years of experience in project design with various consultant firms and in exposure to Mainland projects. Mr. Leung holds a Bachelor of Arts degree in Architectural Studies and a Bachelor of Architecture degree from The University of Hong Kong. He is a Registered Architect in Hong Kong, a Member of The Hong Kong Institute of Architects and an Authorized Person under the Buildings Ordinance.

Mr. Adrian Kin Leung Lo

Director – Project Management

Mr. Lo joined the Group in 2013. He possesses more than 30 years of experience in architectural design and project management for both Hong Kong and Mainland projects. Mr. Lo holds a Master of Business Administration degree from Asia International Open University, Macau, a Bachelor of Arts degree in Architectural Studies and a Bachelor of Architecture degree from The University of Hong Kong. He is also a Registered Architect in Hong Kong, a Member of The Hong Kong Institute of Architects, and an Authorized Person under Buildings Ordinance.

Mr. Raymond Wai Man Mak

Director and Group Financial Controller

Mr. Mak joined the Group in 2011. He possesses 30 years of experience in finance, auditing and as company secretary. He holds a Master of Business Administration degree from The University of Warwick, UK. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Fellow Member of the Association of Chartered Certified Accountants, UK.

Mr. Aris Maroulis

Director – Leasing & Management

Mr. Maroulis joined the Group in 2018. He possesses over 20 years of experience in brand management and business consulting. He holds a Master of Business Administration degree in Marketing from The Wharton School of the University of Pennsylvania, USA and a Bachelor of Arts degree in Economics from Vassar College, USA.

Mr. Derek Siu Fai Pang

Director – Central Office Leasing & Management

Mr. Pang joined the Group in 2012. He possesses over 20 years of experience in property leasing and management. He holds a Bachelor of Science degree from The University of Hong Kong. He is a member of The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors.

Mr. Joseph Kar Fai To

Director – Customer Franchise

Mr. To joined the Group in 2015 as Assistant Director – Leasing & Management and was appointed Director – Customer Franchise in January 2020. He possesses over 25 years of experience in business development. He holds a Master of Arts degree in Marketing from The University of Lancaster, UK and a Bachelor of Commerce degree from The University of Birmingham, UK.

Mr. Ricky Tin For Tsang

Director – Corporate Audit

Mr. Tsang joined the Group in 2014. He possesses over 30 years of finance, audit and risk management experience. He holds a Master and a Bachelor of Arts degree in Engineering Science from The University of Oxford, UK. He is a Fellow of The Hong Kong Institute of Certified Public Accountants, a Member of The Institute of Chartered Accountants in England and Wales and a Member of The Association of Corporate Treasurers, UK. Mr. Tsang resigned on March 16, 2020. He was succeeded by Mr. Sammy Chow, Deputy Director – Corporate Audit.

Ms. Margaret Ka Man Yan

Director – General Counsel & Company Secretary

Ms. Yan joined the Group in 2017. She possesses 30 years of legal advisory experience. Ms. Yan is a solicitor qualified to practice in Hong Kong. She holds a Postgraduate Certificate in Laws and a Bachelor of Laws degree from The University of Hong Kong. She is also a member of The Law Society of Hong Kong, The Law Society of England & Wales and The Law Society of ACT, Australia.

Mr. William Wing Chung Yiu

Director – Leasing & Management

Mr. Yiu joined the Group as Assistant Director – Corporate Audit in 2011 and was appointed as Assistant Director – Leasing & Management in 2013. He is currently as Director – Leasing & Management. He possesses over 25 years of experience in finance, internal audit, mainland China taxation, leasing and management. He holds a Master of Business Administration degree from the California State University, Hayward, USA, and a Bachelor of Economics degree from Monash University, Australia. He is a Certified Practising Accountant of the Australian Society of Certified Practising Accountants, an Associate of the Hong Kong Institute of Certified Public Accountants and a Member of the Institute of Internal Auditors.

Ms. Janet Shun Ngar Poon

Deputy Director – Human Resources

Ms. Poon joined the Group in 2012. She possesses over 20 years of experience in human resources management in real estate industry. She holds a Master of Science degree in Training and Human Resources Management from the University of Leicester and a Bachelor of Business Administration degree from The Chinese University of Hong Kong.

Mr. Anthony Wai Keung Pau

Deputy Director – Service Delivery

Mr. Pau joined the Group in 2014 and was appointed Deputy Director – Service Delivery in 2019. He possesses over 35 years of experience in engineering & mechanical management and project management. He holds a Master of Environmental Engineering Management degree and a Master of Engineering Management degree from the University of Technology, Sydney. He is a Chartered Engineer in UK, a Registered Professional Engineer (Building Services) in HK as well as a Master of Science degree in Inter-disciplinary Design and Management from The University of Hong Kong. He is a Fellow Member of the HK Institution of Engineers, a Senior Member of The Chinese Mechanical Engineering Society and a Professional Member of The Royal Institution of Chartered Surveyors.

Mr. Raymond Yuk Ming Ip

Deputy Director – Leasing & Management

Mr. Ip joined the Group in 2017 and is appointed as Deputy Director – Leasing & Management in 2020. He possesses over 29 years of experience in property leasing and management. He holds a Master of Business degree from The University of Newcastle, Australia and a Bachelor of Commerce degree in Management & Marketing from Curtin University of Technology, Australia. He is also a Chartered Member of the Chartered Institute of Housing and a Professional Member of The Royal Institution of Chartered Surveyors.

REPORT OF THE DIRECTORS

The Directors of the Board have pleasure in submitting their report together with the audited consolidated Financial Statements for the year ended December 31, 2019.

Principal Activities

The principal activities of the Company are investment holding, and through its subsidiaries, property investment for rental income, property development for sales and leasing, car park management and property management.

An analysis of the revenue and trading results of the Company and its subsidiaries (collectively referred to as the Group) by operating segments during the financial year is set out in Note 3 to the Financial Statements.

Principal Subsidiaries and Joint Ventures

A list of principal subsidiaries and joint ventures, together with their places of operations and incorporation and particulars of their issued share capital/registered capital is set out in Notes 39 and 40 to the Financial Statements.

Financial Results

The results of the Group for the year ended December 31, 2019 are set out in the consolidated Financial Statements on pages 161 to 225.

Dividends

The Board now recommends a final dividend of HK59 cents per share which, together with the interim dividend of HK17 cents per share paid on September 26, 2019, makes a total of HK76 cents per share in respect of the year ended December 31, 2019. The proposed final dividend, if approved by the shareholders at the AGM on April 29, 2020, will be paid on May 20, 2020 to shareholders whose names appear on the register of members on May 7, 2020.

The Company aims at providing a stable dividend to shareholders. The dividend will reflect the financial performance of the core leasing business. In recommending a dividend, the Company will take into account the return to shareholders and its funding requirements for future business growth.

Business Review

A fair review of the Group's business and a discussion and analysis of the Group's performance during the year along with the material factors underlying its results and financial position are included in the Review of Operations and Financial Review sections from pages 46 to 83 and pages 89 to 99, respectively, of this annual report. A description of the principal risks and uncertainties facing the Company can be found throughout this annual report, particularly in the Risk Management section from pages 113 to 116. The particulars of important events affecting the Company which have occurred since the end of the financial year 2019, if any, can also be found in the abovementioned sections and the Notes to the Financial Statements. The outlook of the Group's business is discussed in the Review of Operations section from pages 46 to 83 of this annual report.

An analysis of the Group's performance using financial key performance indicators is provided in the Financial Highlights and Financial Review sections from pages 6 to 7 and pages 89 to 99, respectively, of this annual report. A discussion of the Company's environmental policies and performance and an account of the Company's relationships with its key stakeholders are provided in the Sustainable Development section from pages 102 to 107 of this annual report.

Compliance procedures are in place to ensure adherence to relevant laws and regulations, in particular, those which have a significant impact on the Group. The Audit Committee of the Company is delegated by the Board to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements. Any new enactment of, or changes in, the relevant laws and regulations are communicated through regular legal updates to ensure compliance. The legal updates are circulated to all executive staff to ensure that they are aware of the changes and can disseminate relevant information to their subordinates. Reminders to relevant staff on compliance are also sent out regularly, where necessary. Training is provided, as needs arise, to build awareness.

The Group has set up systems and policies to ensure compliance with the relevant laws and regulations which have a significant impact on the Group in conducting its business, including but not limited to, the Buildings Ordinance, the Residential Properties (First-hand Sales) Ordinance, the Competition Ordinance, the Personal Data (Privacy) Ordinance, the Minimum Wage Ordinance, the Employment Ordinance, and the Occupational Safety and Health Ordinance in Hong Kong; and the Construction Law, the Fire Safety Law, the Anti-Monopoly Law, the Anti-Unfair Competition Law, the Cyber Security Law, the Labour Law, the Labour Contract Law and the Trade Union Law in the People's Republic of China. At a corporate level, the Company also complies with the Listing Rules, the Companies Ordinance and the SFO.

Ten-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 226 and 227.

Major Suppliers and Customers

During the year, both the percentage of purchases attributable to the Group's five largest suppliers combined and the percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers combined were less than 30% of the total purchases and total revenue of the Group respectively.

Distributable Reserves

The Company's reserves available for distribution to shareholders as at December 31, 2019 amounted to HK$22,796 million (2018: HK$21,647 million).

Donations

Donations made by the Group during the year amounted to HK$17 million (2018: HK$15 million).

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2019 are set out in Note 19 to the Financial Statements.

Borrowing Costs Capitalization

Borrowing costs capitalized by the Group during the year amounted to HK$1,429 million (2018: HK$251 million).

Major Group Properties

Details of major properties of the Group as at December 31, 2019 are set out on pages 80 to 83.

Share Capital

During the year, no shares were issued (2018: 143,000 shares, fully paid, were issued for a total consideration of HK$2,482,480 as a result of the exercise of share options under the Company's share option scheme).

Details of the movement in share capital of the Company during the year are set out in Note 23 to the Financial Statements.

Equity-Linked Agreements

Other than the share option schemes of the Company as disclosed, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Particulars of the share option schemes are set out in note 29 to the Financial Statements and the paragraphs below.

Directors

The Directors of the Board during the year and up to the date of this report are:

Mr. Ronnie C. Chan
Mr. Weber W.P. Lo
Mr. Ronald J. Arculli
Mr. Nelson W.L. Yuen
Mr. Dominic C.F. Ho
Mr. Philip N.L. Chen
Dr. Andrew K.C. Chan
Prof. H.K. Chang
Ms. Anita Y.M. Fung
Mr. H.C. Ho
Mr. Adriel W. Chan

The brief biographical details of the Directors of the Board are set out on pages 139 to 144. Details of their remuneration are set out in Note 7 to the Financial Statements.

In accordance with article 103 of the Articles of Association, Mr. Nelson W.L. Yuen, Dr. Andrew K.C. Chan, Prof. H.K. Chang and Mr. Adriel W. Chan will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at http://www.hanglung.com under Corporate Governance of the Investor Relations section.

Directors' Service Contracts

No Director of the Board proposed for re-election at the forthcoming AGM has a service contract with the Company, its holding company or any of their respective subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transaction, Arrangement or Contract

Save as disclosed, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company, its holding company or any of their respective subsidiaries was a party, and in which a Director of the Board or his/her connected entity was materially interested, whether directly or indirectly, subsisted at any time during or at the end of the year.

Permitted Indemnity

Pursuant to the Articles of Association, every Director of the Board or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the Companies Ordinance. Such permitted indemnity provision for the benefit of the Directors of the Board was in force during the year and remained in force as of the date of this report.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at December 31, 2019, the interests or short positions of each of the Directors of the Board in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)			Hang Lung Group Limited (Long Position)	
Name	Capacity	Number of Shares	% of Number of Issued Shares	Number of Shares under Option (Note 2)	Number of Shares	% of Number of Issued Shares
Ronnie C. Chan	Personal	16,330,000	0.36	24,025,000	11,790,000	0.87
Weber W.P. Lo	Personal	–	–	12,750,000	–	–
Ronald J. Arculli	Personal & Corporate	724,346	0.02	–	1,089,975	0.08
Nelson W.L. Yuen	Personal	8,000,000	0.18	6,500,000	–	–
Dominic C.F. Ho	–	–	–	–	–	–
Philip N.L. Chen	Personal	–	–	24,000,000	–	–
Andrew K.C. Chan	–	–	–	–	–	–
H.K. Chang	–	–	–	–	–	–
Anita Y.M. Fung	–	–	–	–	–	–
H.C. Ho	Personal	–	–	13,600,000	–	–
Adriel W. Chan	Personal & Other (Note 1)	2,634,270,340	58.57	4,400,000	508,421,580	37.34

Notes

1. Other interests included 2,634,270,340 shares of the Company and 508,421,580 shares of HLG held/deemed to be held by a trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.

2. Movements of Options under the Share Option Schemes of the Company

(i) Share Option Scheme adopted on November 22, 2002

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option As at Jan 1, 2019	Exercised during the Year	As at Dec 31, 2019	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
02/08/2010	Ronnie C. Chan Nelson W.L. Yuen	6,500,000 6,500,000	– –	6,500,000 6,500,000	$26.46	02/08/2012 : 10% 02/08/2013 : 20% 02/08/2014 : 30% 02/08/2015 : 40%	02/07/2020
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012 : 10% 07/29/2013 : 20% 07/29/2014 : 30% 07/29/2015 : 40%	07/28/2020
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012 : 10% 09/29/2013 : 20% 09/29/2014 : 30% 09/29/2015 : 40%	09/28/2020
06/13/2011	Ronnie C. Chan Philip N.L. Chen H.C. Ho	4,500,000 4,500,000 3,000,000	– – –	4,500,000 4,500,000 3,000,000	$30.79	06/13/2013 : 10% 06/13/2014 : 20% 06/13/2015 : 30% 06/13/2016 : 40%	06/12/2021

(ii) Share Option Scheme adopted on April 18, 2012

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option As at Jan 1, 2019	Granted during the Year	As at Dec 31, 2019	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan Philip N.L. Chen H.C. Ho Adriel W. Chan	4,500,000 4,500,000 3,000,000 200,000	– – – –	4,500,000 4,500,000 3,000,000 200,000	$28.20	06/04/2015 : 10% 06/04/2016 : 20% 06/04/2017 : 30% 06/04/2018 : 40%	06/03/2023
12/05/2014	Ronnie C. Chan Philip N.L. Chen H.C. Ho Adriel W. Chan	2,750,000 2,500,000 1,850,000 150,000	– – – –	2,750,000 2,500,000 1,850,000 150,000	$22.60	12/05/2016 : 10% 12/05/2017 : 20% 12/05/2018 : 30% 12/05/2019 : 40%	12/04/2024
08/10/2017	Ronnie C. Chan Philip N.L. Chen H.C. Ho Adriel W. Chan	2,750,000 2,500,000 1,850,000 1,850,000	– – – –	2,750,000 2,500,000 1,850,000 1,850,000	$19.98	08/10/2019 : 10% 08/10/2020 : 20% 08/10/2021 : 30% 08/10/2022 : 40%	08/09/2027
05/16/2018	Weber W.P. Lo	10,000,000	–	10,000,000	$18.98	05/16/2020 : 10% 05/16/2021 : 20% 05/16/2022 : 30% 05/16/2023 : 40%	05/15/2028
06/28/2019	Ronnie C. Chan Weber W.P. Lo H.C. Ho Adriel W. Chan	– – – –	3,025,000 2,750,000 1,900,000 2,200,000	3,025,000 2,750,000 1,900,000 2,200,000	$18.58	06/28/2021 : 10% 06/28/2022 : 20% 06/28/2023 : 30% 06/28/2024 : 40%	06/27/2029

Save as disclosed above, none of the Directors of the Board had, as at December 31, 2019, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the year was the Company, its holding company or any of their respective subsidiaries a party to any arrangement to enable the Directors of the Board to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2019, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Note	Number of Shares or Underlying Shares Held (Long Position)	% of Number of Issued Shares (Long Position)
Chan Tan Ching Fen	1	2,634,270,340	58.57
Cole Enterprises Holdings (PTC) Limited	1	2,634,270,340	58.57
Merssion Limited	1	2,634,270,340	58.57
Adriel W. Chan	1	2,634,270,340	58.57
Hang Lung Group Limited	2	2,605,937,240	57.94
Prosperland Housing Limited	3	1,267,608,690	30.60
Purotat Limited	3	354,227,500	8.55

Notes

1. These shares were the same parcel of shares held by controlled corporations of Merssion Limited which was held under a trust. As Ms. Chan Tan Ching Fen was the founder, Cole Enterprises Holdings (PTC) Limited was the trustee and Mr. Adriel W. Chan was a discretionary beneficiary of the trust, they were deemed to be interested in such shares under the SFO.

   The controlled corporations included HLG in which Merssion Limited had 37.34% interests. Accordingly, the 2,605,937,240 shares held by HLG through its subsidiaries were included in the 2,634,270,340 shares.
2. These shares were held by the wholly-owned subsidiaries of HLG.
3. These companies were wholly-owned subsidiaries of HLG. Their interests were included in the 2,605,937,240 shares held by HLG.

Save as disclosed above, as at December 31, 2019, no other interests or short positions in the shares or underlying shares of the Company required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

Related Party Transactions

On April 2, 2019, (1) Infinite Harvest Developments Limited ("Infinite Harvest"), an indirect wholly-owned subsidiary of the Company; (2) Eagle Century Enterprises Limited ("Eagle Century"), an indirect wholly-owned subsidiary of HLG (holding company of the Company); (3) Newhart Investments Limited ("Newhart"), a holding company of Infinite Harvest and a direct wholly-owned subsidiary of the Company; and (4) Hang Top Limited ("Hang Top") entered into a joint venture agreement (the "JV Agreement") for re-development of the land at Electric Road, Hong Kong.

Pursuant to the JV Agreement, Infinite Harvest and Eagle Century would establish a joint venture company (Hang Top) on 2:1 basis. Newhart and Eagle Century would then transfer to Hang Top the interest in their wholly-owned subsidiaries (which indirectly held relevant land parcels at Electric Road) at consideration of HK$1,204 million and HK$601 million respectively. The aggregate funding requirement for the re-development is estimated to be approximately HK$2,560 million, after taking into account, among other things, the estimated project costs (including land costs, construction costs, project management costs and their respective interest; but excluding sales and marketing expenses).

As HLG and Eagle Century are connected persons of the Company, the transactions contemplated under the JV Agreement constituted connected transactions subject to disclosure requirements of the Listing Rules. Details of the transactions are set out in the announcement of the Company dated April 2, 2019.

Details of the material related party transactions undertaken in the usual course of business are set out in Note 30 to the Financial Statements. Saved as disclosed above, none of these related party transactions constitutes a discloseable connected transaction under the Listing Rules.

Management Contracts

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

Corporate Governance

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 117 to 138.

Auditor

The consolidated Financial Statements for the year ended December 31, 2019 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.

By Order of the Board
Margaret Ka Man Yan
Company Secretary
Hong Kong, January 21, 2020

KPMG

Independent auditor's report to the members of Hang Lung Properties Limited
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hang Lung Properties Limited ("the Company") and its subsidiaries ("the Group") set out on pages 161 to 225, which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Valuation of investment properties and investment properties under development

(Refer to note 11 (property, plant and equipment) and note 1(f) (accounting policy))

The Key Audit Matter	How the matter was addressed in our audit
The aggregate fair values of the Group's investment properties and investment properties under development as at December 31, 2019 amounted to HK$187,136 million, representing 94% of the Group's total assets as at that date. The net increase in fair values of the Group's investment properties and investment properties under development recorded in the consolidated statement of profit or loss for the year ended December 31, 2019 amounted to HK$8,331 million. The Group's investment properties, which are located in Hong Kong and Mainland China, mainly comprise shopping malls, office premises, industrial premises, residential premises and car parking bays. The fair values of the Group's investment properties and investment properties under development were assessed by management based on independent valuations prepared by an external property valuer. We identified valuation of the Group's investment properties and investment properties under development as a key audit matter because of the significance of investment properties and investment properties under development to the Group's consolidated financial statements and because the determination of the fair values involves significant judgement and estimation, including selecting the appropriate valuation methodology, capitalization rates and market rents and, for investment properties under development, an estimation of costs to complete each property development project.	Our audit procedures to assess the valuation of investment properties and investment properties under development included the following: • assessing the competence, capability, experience of the locations and types of properties subject to valuation, independence and objectivity of the external property valuer; • evaluating the valuation methodology used by the external property valuer based on our knowledge of other property valuers for similar types of properties; • on a sample basis, comparing the tenancy information included in the valuation models, which included committed rents and occupancy rates, with underlying contracts and related documentation; • discussing the valuations with the external property valuer in a separate private session and challenging key estimates adopted in the valuations, including those relating to market selling prices, market rents and capitalization rates, by comparing them with historical rates and available market data, taking into consideration comparability and other local market factors, with the assistance of our internal property valuation specialists; and • for investment properties under development, comparing the estimated construction costs to complete each property development project with the Group's updated budgets (see further details set out in the key audit matter below).

Assessing the development costs of investment properties under development in Mainland China

(Refer to note 11 (property, plant and equipment) and note 1(f) (accounting policy))

The Key Audit Matter

The fair value of the Group's investment properties under development is determined using the direct comparison valuation methodology, with reference to comparable market transactions, to derive the fair value of the property assuming it was completed and, where appropriate, after deducting (1) the estimated development costs to be expended to complete each property development project and (2) the estimated profit margin.

Therefore, any increase in the estimated development costs to be expended to complete each property development project compared with the original management approved budgets could have a significant negative impact on the fair value of the Group's investment properties under development and, hence, the results for the year.

The Group's investment properties under development, which are located in different cities in Mainland China, comprise shopping malls, office premises and residential premises.

We identified the assessing the development costs of the Group's investment properties under development as a key audit matter because the determination of estimated development costs involves significant management judgement and estimation, in particular in relation to project feasibility studies, estimating future development costs to be expended to complete each property development project and the estimated profit margin.

How the matter was addressed in our audit

Our audit procedures to assess the development costs of investment properties under development in Mainland China included the following:

- assessing the design, implementation and operating effectiveness of management's key internal controls over the preparation and monitoring of management budgets and forecasts of construction costs for each investment property under development;
- discussing the valuations of investment properties under development with the external property valuer in a separate private session and challenging key estimates adopted in the valuations including those relating to market selling prices, by comparing them with available market data, taking into consideration comparability and other local market factors;
- performing a retrospective review for all investment properties under development by comparing the actual construction costs incurred during the current year with those included in the prior year's forecasts in order to assess the accuracy of the Group's budgeting process;
- conducting site visits to all investment properties under development and discussing with management and the in-house quantity surveyor the development progress and the development budgets reflected in the latest forecasts for each property development project; and
- comparing, on a sample basis, the quantity surveyor's reports for the construction costs incurred for property development projects with the underlying payment records and other documentation relevant to the construction cost accruals and/or payments.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained all of the other information prior to the date of this auditor's report apart from "Chairman's Letter to Shareholders". The remaining information is expected to be made available to us after that date.

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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the consolidated financial statements

The directors are responsible for the preparation of 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 has no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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 the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, 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 this independent auditor's report is Cheung Wing Han, Ivy.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

January 21, 2020

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2019

	Note	2019 HK$ Million	2018 HK$ Million	2019 RMB Million (For information purpose only)	2018 RMB Million (For information purpose only)
Revenue	3(a)	**8,852**	9,408	**7,810**	7,914
Direct costs and operating expenses		**(2,365)**	(2,586)	**(2,090)**	(2,173)
		6,487	6,822	**5,720**	5,741
Other net income	4	**9**	93	**8**	78
Administrative expenses		**(593)**	(637)	**(524)**	(539)
Profit from operations before changes in fair value of properties		**5,903**	6,278	**5,204**	5,280
Net increase in fair value of properties	3(b)	**8,797**	4,170	**7,869**	3,531
Profit from operations after changes in fair value of properties		**14,700**	10,448	**13,073**	8,811
Interest income		**146**	445	**127**	373
Finance costs		**(46)**	(1,069)	**(41)**	(902)
Net interest income/(expense)	5	**100**	(624)	**86**	(529)
Share of profits of joint ventures	13	**9**	97	**8**	82
Profit before taxation	3(b) & 6	**14,809**	9,921	**13,167**	8,364
Taxation	8(a)	**(5,009)**	(1,269)	**(4,476)**	(1,114)
Profit for the year		**9,800**	8,652	**8,691**	7,250
Attributable to:					
Shareholders	24	**6,172**	8,078	**5,440**	6,763
Non-controlling interests		**3,628**	574	**3,251**	487
		9,800	8,652	**8,691**	7,250
Earnings per share	10(a)				
Basic		**HK$1.37**	HK$1.80	**RMB1.21**	RMB1.50
Diluted		**HK$1.37**	HK$1.80	**RMB1.21**	RMB1.50

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2019

				For information purpose only	
	Note	**2019 HK$ Million**	2018 HK$ Million	**2019 RMB Million**	2018 RMB Million
Profit for the year		**9,800**	8,652	**8,691**	7,250
Other comprehensive income	8(d)				
Items that are or may be reclassified subsequently to profit or loss:					
Movement in exchange reserve:					
Exchange difference arising from translation to presentation currency		**(2,048)**	(3,658)	**925**	2,801
Net investment hedge – net gain	31(d)	**20**	–	**18**	–
Movement in hedging reserve:					
Effective portion of changes in fair value		**82**	(4)	**72**	(7)
Net amount transferred to profit or loss		**54**	(5)	**48**	(1)
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**(6)**	8	**(5)**	7
		(1,898)	(3,659)	**1,058**	2,800
Total comprehensive income for the year		**7,902**	4,993	**9,749**	10,050
Total comprehensive income attributable to:					
Shareholders		**4,415**	4,703	**6,511**	9,565
Non-controlling interests		**3,487**	290	**3,238**	485
		7,902	4,993	**9,749**	10,050

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2019

	Note	2019 HK$ Million	2018 HK$ Million	*For information purpose only* 2019 RMB Million	2018 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties		159,534	136,676	142,956	119,895
Investment properties under development		27,602	31,186	24,726	27,325
Other property, plant and equipment		234	216	210	189
	11	187,370	168,078	167,892	147,409
Interest in joint ventures	13	1,296	1,330	1,162	1,168
Other assets	14	87	93	78	82
Deposits with banks	15	–	1,853	–	1,628
		188,753	171,354	169,132	150,287
Current assets					
Cash and deposits with banks	15	3,306	10,510	2,963	9,222
Trade and other receivables	16	2,279	2,046	2,042	1,794
Properties for sale	17	5,642	2,442	5,057	2,145
Assets held for sale	18	–	101	–	89
		11,227	15,099	10,062	13,250
Current liabilities					
Bank loans and other borrowings	19	2,694	2,414	2,414	2,116
Trade and other payables	20	8,911	5,974	7,986	5,236
Lease liabilities	12 & 37	23	22	21	19
Current tax payable	22(a)	809	533	725	470
Liabilities directly associated with assets held for sale	18	–	3	–	3
		12,437	8,946	11,146	7,844
Net current (liabilities)/assets		(1,210)	6,153	(1,084)	5,406
Total assets less current liabilities		187,543	177,507	168,048	155,693
Non-current liabilities					
Bank loans and other borrowings	19	26,979	24,839	24,182	21,792
Lease liabilities	12 & 37	293	298	262	261
Deferred tax liabilities	22(b)	12,459	8,776	11,161	7,690
		39,731	33,913	35,605	29,743
NET ASSETS		147,812	143,594	132,443	125,950
Capital and reserves					
Share capital	23	39,915	39,915	37,433	37,433
Reserves	24	98,754	97,646	86,820	83,231
Shareholders' equity		138,669	137,561	124,253	120,664
Non-controlling interests		9,143	6,033	8,190	5,286
TOTAL EQUITY		147,812	143,594	132,443	125,950

Weber W.P. Lo
Chief Executive Officer

H.C. Ho
Chief Financial Officer

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

HK$ Million	Shareholders' equity					
	Share capital (Note 23)	Other reserves (Note 24)	Retained profits (Note 24)	Total	Non-controlling interests	Total equity
At January 1, 2018	39,912	2,251	93,995	136,158	6,087	142,245
Profit for the year	–	–	8,078	8,078	574	8,652
Exchange difference arising from translation to presentation currency	–	(3,374)	–	(3,374)	(284)	(3,658)
Cash flow hedges: net movement in hedging reserve	–	(9)	–	(9)	–	(9)
Net change in fair value of equity investments	–	8	–	8	–	8
Total comprehensive income for the year	–	(3,375)	8,078	4,703	290	4,993
Final dividend in respect of previous year	–	–	(2,609)	(2,609)	–	(2,609)
Interim dividend in respect of current year	–	–	(765)	(765)	–	(765)
Issue of shares	3	–	–	3	–	3
Employee share-based payments	–	7	64	71	–	71
Dividends paid to non-controlling interests	–	–	–	–	(344)	(344)
At December 31, 2018 and January 1, 2019	39,915	(1,117)	98,763	137,561	6,033	143,594
Profit for the year	–	–	6,172	6,172	3,628	9,800
Exchange difference arising from translation to presentation currency	–	(1,907)	–	(1,907)	(141)	(2,048)
Net investment hedge – net gain	–	20	–	20	–	20
Cash flow hedges: net movement in hedging reserve	–	136	–	136	–	136
Net change in fair value of equity investments	–	(6)	–	(6)	–	(6)
Total comprehensive income for the year	–	(1,757)	6,172	4,415	3,487	7,902
Final dividend in respect of previous year	–	–	(2,609)	(2,609)	–	(2,609)
Interim dividend in respect of current year	–	–	(765)	(765)	–	(765)
Employee share-based payments	–	30	37	67	–	67
Dividends paid to non-controlling interests	–	–	–	–	(377)	(377)
At December 31, 2019	**39,915**	**(2,844)**	**101,598**	**138,669**	**9,143**	**147,812**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

For information purpose only

RMB Million	Shareholders' equity					
	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
At January 1, 2018	37,431	(2,308)	78,698	113,821	5,088	118,909
Profit for the year	–	–	6,763	6,763	487	7,250
Exchange difference arising from translation to presentation currency	–	2,803	–	2,803	(2)	2,801
Cash flow hedges: net movement in hedging reserve	–	(8)	–	(8)	–	(8)
Net change in fair value of equity investments	–	7	–	7	–	7
Total comprehensive income for the year	–	2,802	6,763	9,565	485	10,050
Final dividend in respect of previous year	–	–	(2,115)	(2,115)	–	(2,115)
Interim dividend in respect of current year	–	–	(669)	(669)	–	(669)
Issue of shares	2	–	–	2	–	2
Employee share-based payments	–	4	56	60	–	60
Dividends paid to non-controlling interests	–	–	–	–	(287)	(287)
At December 31, 2018 and January 1, 2019	37,433	498	82,733	120,664	5,286	125,950
Profit for the year	–	–	5,440	5,440	3,251	8,691
Exchange difference arising from translation to presentation currency	–	938	–	938	(13)	925
Net investment hedge – net gain	–	18	–	18	–	18
Cash flow hedges: net movement in hedging reserve	–	120	–	120	–	120
Net change in fair value of equity investments	–	(5)	–	(5)	–	(5)
Total comprehensive income for the year	–	1,071	5,440	6,511	3,238	9,749
Final dividend in respect of previous year	–	–	(2,288)	(2,288)	–	(2,288)
Interim dividend in respect of current year	–	–	(694)	(694)	–	(694)
Employee share-based payments	–	27	33	60	–	60
Dividends paid to non-controlling interests	–	–	–	–	(334)	(334)
At December 31, 2019	**37,433**	**1,596**	**85,224**	**124,253**	**8,190**	**132,443**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2019

	Note	2019 HK$ Million	2018 HK$ Million	For information purpose only 2019 RMB Million	2018 RMB Million
Operating activities					
Cash generated from operations	25	**6,180**	6,801	**5,417**	5,737
Tax paid					
Hong Kong Profits Tax paid		**(101)**	(491)	**(89)**	(414)
Mainland China Income Tax paid		**(760)**	(572)	**(671)**	(477)
Net cash generated from operating activities		**5,319**	5,738	**4,657**	4,846
Investing activities					
Payment for property, plant and equipment		**(12,262)**	(12,859)	**(10,777)**	(10,871)
Acquisition of subsidiaries	26	**–**	(1,200)	**–**	(1,054)
Net sale proceeds from disposal of property, plant and equipment		**117**	161	**103**	137
Net sale proceeds from disposal of assets held for sale		**95**	237	**83**	192
Interest received		**168**	453	**146**	378
Dividend received from a joint venture		**43**	44	**38**	38
Decrease in bank deposits with maturity greater than 3 months		**1,874**	7,905	**1,653**	6,665
Net cash used in investing activities		**(9,965)**	(5,259)	**(8,754)**	(4,515)
Financing activities					
Proceeds from new bank loans and other borrowings	27	**11,919**	9,081	**10,510**	7,666
Repayment of bank loans and other borrowings	27	**(9,228)**	(6,028)	**(8,128)**	(5,081)
Capital element of lease rentals paid	27	**(8)**	(3)	**(7)**	(3)
Proceeds from exercise of share options		**–**	3	**–**	2
Interest and other borrowing costs paid		**(1,398)**	(1,245)	**(1,231)**	(1,049)
Interest element of lease rentals paid	27	**(16)**	(16)	**(14)**	(14)
Dividends paid		**(3,374)**	(3,374)	**(2,982)**	(2,784)
Dividends paid to non-controlling interests		**(377)**	(344)	**(334)**	(287)
Net cash used in financing activities		**(2,482)**	(1,926)	**(2,186)**	(1,550)
Decrease in cash and cash equivalents		**(7,128)**	(1,447)	**(6,283)**	(1,219)
Effect of foreign exchange rate changes		**(55)**	(370)	**6**	56
Cash and cash equivalents at January 1		**8,556**	10,373	**7,507**	8,670
Cash and cash equivalents at December 31	15	**1,373**	8,556	**1,230**	7,507

The accompanying notes form part of these financial statements.

1 Significant Accounting Policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared according to note 1(y) as if the presentation currency is Renminbi.

1 Significant Accounting Policies (Continued)

(c) Subsidiaries and non-controlling interests

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

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

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

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

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

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

1 Significant Accounting Policies (Continued)

(d) Joint ventures

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

The Group's interests in joint ventures are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the joint ventures' net assets. The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. The consolidated statement of profit or loss includes the Group's share of the post-acquisition, post-tax results of the joint ventures for the year, whereas the Group's share of the post-acquisition, post-tax items of the joint ventures' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

(e) Goodwill

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

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

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

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

1 Significant Accounting Policies (Continued)

(f) Investment properties and investment properties under development

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

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

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease, and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 1(i).

(g) Properties for sale

1. Properties under development for sale

Properties under development for sale are classified under current assets and stated at the lower of cost and net realizable value. Costs include the acquisition cost of land, aggregate cost of development, borrowing costs capitalized (Note 1(t)) and other direct expenses. Net realizable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions less estimated costs of completion and costs to be incurred in selling the property.

2. Completed properties for sale

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

(h) Other property, plant and equipment

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

(i) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

1 Significant Accounting Policies (Continued)

(i) Leases (Continued)

1. As a lessee

Policy applicable from January 1, 2019

At lease commencement date, the Group recognizes a right-of-use asset and a corresponding lease liability with respect to all leases, except for short-term leases (with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as expenses on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and the interest expense is calculated using the effective interest method.

The right-of-use asset recognized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred.

The right-of-use assets that meet the definition of investment property are subsequently stated at fair value in accordance with note 1(f). Otherwise, they are subsequently stated at cost less accumulated depreciation (Note 1(h)) and impairment losses (Note 1(n)).

Lease payments included in the measurement of the lease liability comprise the fixed payments (including in-substance fixed payments) less any lease incentives. Variable lease payments that do not depend on an index or rate are charged to profit or loss in the accounting period in which they are incurred.

Policy applicable on or before December 31, 2018

(i) Classification of assets leased to the Group

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred substantially all the risks and benefits of ownership are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

1 Significant Accounting Policies (Continued)

(i) Leases (Continued)

1. As a lessee (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating leases charges

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

2. As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

Rental income from operating leases is recognized in accordance with note 1(w)(2).

(j) Depreciation

1. Investment properties

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

2. Other property, plant and equipment

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

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

1 Significant Accounting Policies (Continued)

(k) Investments in equity instruments

Investments in equity instruments are classified and measured at fair value through profit or loss (i.e. FVTPL) except when the equity investment is not held for trading and an election is made to present the fair value changes in other comprehensive income (i.e. FVTOCI). This election is made on an investment-by-investment basis on initial recognition and is irrevocable. The gains or losses (both on subsequent measurement and derecognition) of investments that are measured at FVTPL are recognized in profit or loss. If the equity investment is designated as at FVTOCI, all gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, except for dividend income that is generally recognized in profit or loss in accordance with the policy set out in note 1(w)(5).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments.

(l) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting (Note 1(m)(1)).

(m) Hedging

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and non-derivative financial liabilities as hedging instruments to hedge the foreign exchange risk on net investments in foreign operations.

1. Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge of a recognized asset or liability or a highly probable forecast transaction, the effective portion of changes in fair value of the hedging instruments is recognized in other comprehensive income and accumulated in a hedging reserve as a separate component of equity. Any ineffective portion of changes in fair value is recognized immediately in profit or loss. The amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

2. Hedge of net investments in foreign operations

When a non-derivative financial liability is designated as the hedging instrument in a hedge of net investment in a foreign operation, the effective portion of any foreign exchange gain or loss on the non-derivative financial liabilities is recognized in other comprehensive income and accumulated in the exchange reserve within equity until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Any ineffective portion is recognized immediately in profit or loss.

1 Significant Accounting Policies (Continued)

(n) Impairment of assets

– For other property, plant and equipment, investments in joint ventures, goodwill and investments in subsidiaries in the Company's statement of financial position, an assessment is carried out at the end of each reporting period to determine whether there is objective evidence that these assets are impaired. If any such indication exists, the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. The recoverable amount is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in profit or loss if the carrying amount exceeds the recoverable amount. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized. An impairment loss in respect of goodwill is not reversed.

– For trade and other receivables and other financial assets measured at amortized cost (including cash and deposits with banks and advances to unlisted investee companies), the Group recognizes a loss allowance which is equal to 12-month expected credit losses unless the balance is a trade receivable or there has been a significant increase in credit risk of the financial asset since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

  Expected credit losses are a probability-weighted estimate of credit losses measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), unless the balances are credit-impaired at the end of the reporting period where expected credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows.

  At the end of each reporting period, the Group assesses whether the balances are credit-impaired (i.e. when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred, such as significant financial difficulty of the debtor).

  The allowance for expected credit losses is presented in the statement of financial position as a deduction from the gross carrying amount of the assets. The adjustment to the allowance for credit losses is recognized in profit or loss, as an impairment or reversal of impairment.

  The gross carrying amount is written off to the extent that there is no realistic prospect of recovery. Subsequent recoveries that were previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 Significant Accounting Policies (Continued)

(o) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for credit losses (Note 1(n)), except where the receivables are interest-free loans without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for credit losses (Note 1(n)).

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses in accordance with the policy set out in note 1(n).

(q) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell, except that financial assets, deferred tax assets and investment properties continue to be measured in accordance with the Group's accounting policies.

(r) Trade and other payables (including contract liabilities)

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 1(u), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the revenue arising from contract with customers within the scope of HKFRS 15, *Revenue from contracts with customers*. A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized.

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (Note 1(t)).

1 Significant Accounting Policies (Continued)

(t) Borrowing costs

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

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

(u) Financial guarantees issued

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

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

Subsequent to initial recognition, the amount initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognizes a provision when expected credit losses on the financial guarantees are determined to be higher than the amount carried in trade and other payables in respect of the guarantees (i.e. the amount initially recognized, less accumulated amortization).

To determine expected credit losses, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month expected credit loss is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime expected credit loss is measured.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an expected credit loss is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

1 Significant Accounting Policies (Continued)

(v) Provisions and contingent liabilities

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

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

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of properties, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

1. *Sale of properties*

Revenue from sale of completed properties is recognized when the legal assignment is completed, which is the point in time when the buyer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

2. *Rental income*

Rental income under operating leases is recognized on a straight line basis over the terms of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payment receivable. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are earned.

3. *Building management fees and other income from property leasing*

Building management fees and other income from property leasing are recognized when the related services are rendered.

4. *Interest income*

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

1 Significant Accounting Policies (Continued)

(w) Revenue and other income (Continued)

5. Dividends

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

(x) Taxation

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

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

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

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

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

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

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

1 Significant Accounting Policies (Continued)

(y) Translation of foreign currencies

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

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss, except those arising from the translation of non-derivative financial liabilities designated as the hedging instruments to hedge the foreign exchange risk on net investments in foreign operations. Such exchange gains or losses to the extent that the hedge is effective are recognized in other comprehensive income (Note 1(m)(2)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate ruling at the transaction dates. The transaction date is the date on which the Group initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results and financial position of all operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. assets and liabilities are translated at the closing exchange rates at the end of the reporting period;
2. income and expenses are translated at the exchange rates approximating the exchange rates ruling at the dates of the transactions; and
3. all resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(z) Related parties

1. A person, or a close member of that person's family, is related to the Group if that person:
   (i) has control or joint control over the Group;
   (ii) has significant influence over the Group; or
   (iii) is a member of the key management personnel of the Group or the Group's parent.

2. An entity is related to the Group if any of the following conditions applies:
   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   (iii) Both entities are joint ventures of the same third party.

1 Significant Accounting Policies (Continued)

(z) Related parties (Continued)

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

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

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

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

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

(aa) Segment reporting

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

(ab) Employee benefits

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

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

2. Share-based payments

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

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

1 Significant Accounting Policies (Continued)

(ab) Employee benefits (Continued)

2. *Share-based payments* *(Continued)*

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

2 Changes in Accounting Policies

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group. Except for HKFRS 16, *Leases*, and Amendments to HKAS 23, *Borrowing costs*, the adoption of these new or amended HKFRSs does not have significant impact on the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*.

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 16 are summarized below.

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases under HKAS 17 based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under HKFRS 16, the Group is required to capitalize all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17.

The Group decided to apply recognition exemptions to short-term leases that have a lease term of 12 months or less and leases of low-value assets. For leases of other assets, the Group recognized right-of-use assets and lease liabilities.

As a lessor

HKFRS 16 does not substantially change how a lessor accounts for leases under HKAS 17.

Disclosure

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the Group.

Transition

The Group applied HKFRS 16 with the date of initial application of January 1, 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in the opening balances at January 1, 2019.

2 Changes in Accounting Policies (Continued)

HKFRS 16 (Continued)

Transition (Continued)

(a) Leases previously classified as operating leases under HKAS 17

At transition, lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months as of January 1, 2019; and
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(b) Leases previously classified as finance leases under HKAS 17

For leases that were previously classified as finance leases under HKAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date. The accounting caption of "finance lease obligations" is changed to "lease liabilities".

Impacts on the consolidated financial statements

On transition to HKFRS 16, HK$320 million were reclassified from finance lease obligations to lease liabilities, and the Group recognized an additional HK$11 million of right-of-use assets and HK$11 million of lease liabilities. Such right-of-use assets are presented within investment properties. There was no impact on the opening balance of equity.

When measuring these lease liabilities, the Group discounted lease payments using the incremental borrowing rate as of January 1, 2019. The weighted-average rate applied was 5%.

Annual Improvements to HKFRSs 2015 – 2017 cycles: Amendments to HKAS 23

The Amendments to HKAS 23 clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

Impacts on the consolidated financial statements

In accordance with the transitional provisions, the Group has applied those amendments to borrowing costs incurred on or after January 1, 2019, the date of initial application. Consequently, additional borrowing costs of HK$607 million were capitalized to properties under development for the year ended December 31, 2019.

However, the additional capitalization neither materially impacted the overall profit for the year nor carrying value of properties under development which was stated at fair value.

3 Revenue and Segment Information

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

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

Management evaluates performance primarily based on profit before taxation.

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

(a) Disaggregation of revenue

Revenue for the year is analyzed as follows:

HK$ Million	2019	2018
Under the scope of HKFRS 16 (2018: HKAS 17), *Leases:*		
Rental income (Note 12(b))	7,713	7,344
Under the scope of HKFRS 15, *Revenue from contracts with customers*:		
Sales of completed properties	296	1,227
Building management fees and other income from property leasing	843	837
	1,139	2,064
	8,852	9,408

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date to:

- building management fees and other income from property leasing, as the Group recognizes revenue at the amount to which it has a right to invoice, which corresponds directly with the value to the customer of the Group's performance completed to date; and
- revenue from sales of completed properties, as the performance obligation is part of a contract that has an original expected duration of one year or less.

3 Revenue and Segment Information (Continued)

(b) Revenue and results by segments

HK$ Million	Revenue		Profit before taxation	
	2019	2018	**2019**	2018
Segment				
Property leasing				
– Mainland China	**4,544**	4,244	**2,938**	2,739
– Hong Kong	**4,012**	3,937	**3,387**	3,321
	8,556	8,181	**6,325**	6,060
Property sales				
– Mainland China	**–**	–	**(2)**	–
– Hong Kong	**296**	1,227	**164**	762
	296	1,227	**162**	762
Segment total	**8,852**	9,408	**6,487**	6,822
Other net income			**9**	93
Administrative expenses			**(593)**	(637)
Profit from operations before changes in fair value of properties			**5,903**	6,278
Net increase/(decrease) in fair value of properties			**8,797**	4,170
– property leasing in Hong Kong (Note)			**(950)**	3,852
– property leasing in mainland China (Note)			**9,281**	318
– properties for sale in Hong Kong upon transfer to investment properties			**466**	–
Net interest income/(expense)			**100**	(624)
– interest income			**146**	445
– finance costs			**(46)**	(1,069)
Share of profits of joint ventures			**9**	97
Profit before taxation			**14,809**	9,921

Note:

The overall increase in the external independent professional valuation of the mainland investment properties reflected an increase in valuation of Shanghai properties due to the increased rental and operating performance and projections adopted in the valuation of Shanghai properties. The capitalization rates for Shanghai properties adopted by the professional valuer were also compressed by 2% with the resulting capitalization rates falling within the range of 5.5% - 6.25% following the asset enhancement programme, the reduction in risk premium given the security of new leases and to be in line with market expectations. The revaluation gain of the Shanghai properties was partly offset by a revaluation loss of properties in the second tier cities. The rental projections adopted in the valuation of properties in the second tier cities have been decreased to reflect the challenging market environment, in particular the increase in supply and competitions of offices in these regions. The decrease in value of the Hong Kong investment properties reflected the subdue outlook of rental growth against the backdrop of social unrest.

3 Revenue and Segment Information (Continued)

(c) Total assets by segments

HK$ Million	Total assets	
	2019	2018
Segment		
Property leasing		
– Mainland China	**123,824**	103,489
– Hong Kong	**65,824**	66,634
	189,648	170,123
Property sales		
– Mainland China	**1,604**	–
– Hong Kong	**4,039**	2,443
	5,643	2,443
Segment total	**195,291**	172,566
Interest in joint ventures	**1,296**	1,330
Other assets	**87**	93
Cash and deposits with banks	**3,306**	12,363
Assets held for sale	**–**	101
Total assets	**199,980**	186,453

4 Other Net Income

HK$ Million	**2019**	2018
Dividend income from equity investments measured at FVTOCI	**3**	–
Ineffectiveness on cash flow hedges	**1**	(1)
Gain on disposal of investment properties	**–**	71
Gain on disposal of assets held for sale	**–**	25
Others	**5**	(2)
	9	93

5 Net Interest Income/(Expense)

HK$ Million	2019	2018
Interest income on bank deposits	146	445
Interest expense on bank loans and other borrowings	1,415	1,271
Interest on lease liabilities	16	16
Other borrowing costs	44	33
Total borrowing costs	1,475	1,320
Less: Borrowing costs capitalized (Note)	(1,429)	(251)
Finance costs	46	1,069
Net interest income/(expense)	100	(624)

Note:

The borrowing costs were capitalized at an average rate of 4.7% (2018: 4.8%) per annum to properties under development.

6 Profit Before Taxation

HK$ Million	2019	2018
Profit before taxation is arrived at after charging:		
Cost of properties sold	121	373
Staff costs (Note)	1,340	1,338
Depreciation	50	45
Auditors' remuneration		
– audit services	9	9
– non-audit services	2	3
and after crediting:		
Rental and related income from investment properties less direct outgoings of HK$2,231 million (2018: HK$2,121 million)	6,325	6,060

Note:

The staff costs included employee share-based payments of HK$67 million (2018: HK$71 million). If the amounts not recognized in the statement of profit or loss, including amounts capitalized to investment properties under development, were accounted for, staff costs would have been HK$1,604 million (2018: HK$1,568 million).

7 Emoluments of Directors and Senior Management

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

(a) Directors' emoluments

Details of directors' emoluments are summarized below:

HK$ Million Name	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Gratuity	The Group's contributions to retirement scheme	2019	2018
Executive Directors							
Ronnie C. Chan	1.0	27.8	10.3	–	2.8	41.9	38.7
Weber W.P. Lo (Appointed on May 16, 2018)	0.7	18.6	15.9	–	0.9	36.1	26.1
H.C. Ho	0.7	5.3	4.1	–	0.5	10.6	9.5
Adriel W. Chan	0.7	7.1	3.5	–	0.5	11.8	9.3
Philip N.L. Chen (Re-designated from Executive Director to Non-Executive Director on July 16, 2018)	–	–	–	–	–	–	55.3
Non-Executive Director							
Philip N.L. Chen (Re-designated from Executive Director to Non-Executive Director on July 16, 2018)	0.7	4.2	–	–	0.3	5.2	4.1
Independent Non-Executive Directors							
Ronald J. Arculli	0.9	–	–	–	–	0.9	0.9
Nelson W.L. Yuen	0.7	–	–	–	–	0.7	0.7
Dominic C.F. Ho	1.2	–	–	–	–	1.2	1.1
Andrew K.C. Chan	0.9	–	–	–	–	0.9	0.9
H.K. Chang	1.1	–	–	–	–	1.1	1.0
Anita Y.M. Fung	0.9	–	–	–	–	0.9	0.9
2019	9.5	63.0	33.8	–	5.0	111.3	148.5
2018	8.9	66.4	27.8	40.0	5.4	148.5	

7 Emoluments of Directors and Senior Management (Continued)

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2018: five) are existing directors of the Company whose emoluments are disclosed in note 7(a). The emoluments in respect of the remaining one individual in 2019 are as follows:

HK$ Million	2019
Salaries, allowances and benefits in kind	5.6
Discretionary bonuses	2.9
The Group's contributions to retirement schemes	0.4
	8.9

(c) In addition to the above emoluments, certain directors of the Company were granted share options under the share option schemes of the Company, details of which are disclosed in note 29(b).

8 Taxation in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

HK$ Million	2019	2018
Current tax		
Hong Kong Profits Tax	470	482
Under-provision in prior years	4	7
	474	489
Mainland China Income Tax	669	635
Total current tax	1,143	1,124
Deferred tax		
Changes in fair value of properties	3,766	66
Other origination and reversal of temporary differences	100	79
Total deferred tax (Note 22(b))	3,866	145
Total income tax expense	5,009	1,269

Provision for Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year. Mainland China Income Tax represents mainland China Corporate Income Tax calculated at 25% (2018: 25%) and mainland China withholding income tax calculated at the applicable rates. The withholding tax rate applicable to Hong Kong companies in respect of dividend distributions from foreign investment enterprises in mainland China was 5% (2018: 5%).

(b) Share of joint ventures' taxation for the year ended December 31, 2019 of HK$9 million (2018: HK$9 million) is included in the share of profits of joint ventures.

8 Taxation in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

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

HK$ Million	2019	2018
Profit before taxation	14,809	9,921
Notional tax on profit before taxation at applicable rates	3,552	1,854
Tax effect of non-taxable income	(228)	(705)
Tax effect of non-deductible expenses	262	33
Tax effect of tax losses utilized and other deductible temporary differences	1,084	(108)
Tax effect of unrecognized tax losses	335	188
Under-provision in prior years	4	7
Actual tax expense	5,009	1,269

(d) There was no tax effect relating to the components of other comprehensive income for the years ended December 31, 2019 and 2018.

9 Dividends

(a) Dividends attributable to the year

HK$ Million	2019	2018
Interim dividend declared and paid of HK17 cents (2018: HK17 cents) per share	765	765
Final dividend of HK59 cents (2018: HK58 cents) per share proposed after the end of the reporting period	2,653	2,609
	3,418	3,374

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

(b) The final dividend of HK$2,609 million (calculated based on HK58 cents per share and the total number of issued shares as of the dividend pay-out date) for the year ended December 31, 2018 was approved and paid in the year ended December 31, 2019 (2018: HK$2,609 million).

10 Earnings Per Share

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

HK$ Million	2019	2018
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	6,172	8,078

	Number of shares	
	2019	2018
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	4,497,718,670	4,497,682,333

Note:

Diluted earnings per share were the same as the basic earnings per share as there was no dilutive effect on the potential ordinary shares during the years.

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

HK$ Million	2019	2018
Net profit attributable to shareholders	6,172	8,078
Effect of changes in fair value of properties	(8,797)	(4,170)
Effect of corresponding income tax	3,842	66
Effect of changes in fair value of investment properties of joint ventures	38	(48)
	(4,917)	(4,152)
Non-controlling interests	3,219	167
	(1,698)	(3,985)
Underlying net profit attributable to shareholders	4,474	4,093

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

	2019	2018
Basic	HK$0.99	HK$0.91
Diluted	HK$0.99	HK$0.91

11 Property, Plant and Equipment

HK$ Million	Investment properties	Investment properties under development	Others	Total
Cost or valuation:				
At January 1, 2018	134,444	21,592	547	156,583
Exchange adjustment	(3,357)	(896)	(14)	(4,267)
Additions	1,028	11,085	48	12,161
Disposals	(103)	–	(7)	(110)
Net increase in fair value	4,170	–	–	4,170
Transfer in/(out)	595	(595)	–	–
Transfer to assets held for sale (Note 18)	(101)	–	–	(101)
At December 31, 2018, as previously reported	136,676	31,186	574	168,436
Impact of initial adoption of HKFRS 16 (Note 2)	**11**	**–**	**–**	**11**
At January 1, 2019, restated	**136,687**	**31,186**	**574**	**168,447**
Exchange adjustment	**(1,775)**	**(698)**	**(24)**	**(2,497)**
Additions (Note 11(b))	**1,179**	**15,091**	**79**	**16,349**
Disposals	**(110)**	**–**	**(18)**	**(128)**
Net increase/(decrease) in fair value	**9,850**	**(1,519)**	**–**	**8,331**
Transfer in/(out)	**14,854**	**(14,854)**	**–**	**–**
Transfer to properties for sale (Note 17)	**(1,819)**	**(1,604)**	**–**	**(3,423)**
Transfer from properties for sale (Note 17)	**668**	**–**	**–**	**668**
At December 31, 2019	**159,534**	**27,602**	**611**	**187,747**
Accumulated depreciation:				
At January 1, 2018	–	–	327	327
Exchange adjustment	–	–	(8)	(8)
Charge for the year	–	–	45	45
Written back on disposals	–	–	(6)	(6)
At December 31, 2018 and January 1, 2019	–	–	358	358
Exchange adjustment	**–**	**–**	**(21)**	**(21)**
Charge for the year	**–**	**–**	**50**	**50**
Written back on disposals	**–**	**–**	**(10)**	**(10)**
At December 31, 2019	**–**	**–**	**377**	**377**
Net book value:				
At December 31, 2019	**159,534**	**27,602**	**234**	**187,370**
At December 31, 2018	136,676	31,186	216	168,078

Cost or valuation of the property, plant and equipment is made up as follows:

	Investment properties	Investment properties under development	Others	Total
December 31, 2019				
Valuation	**159,534**	**27,602**	**–**	**187,136**
Cost	**–**	**–**	**611**	**611**
	159,534	**27,602**	**611**	**187,747**
December 31, 2018				
Valuation	136,676	31,186	–	167,862
Cost	–	–	574	574
	136,676	31,186	574	168,436

11 Property, Plant and Equipment (Continued)

(a) The investment properties include right-of-use assets (2018: properties held under finance lease).

(b) The additions to investment properties under development included the final payment to Hangzhou Land Resources Bureau for acquiring the land in Xiacheng District, Hangzhou, Zhejiang Province, PRC, and assets acquired through obtaining control of a group of subsidiaries (Note 26(a)).

(c) Fair value measurement of properties

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

HK$ Million	Fair value measurement at 2019		
	Level 1	**Level 2**	**Level 3**
Investment properties	**–**	**159,534**	**–**
Investment properties under development	**–**	**–**	**27,602**

HK$ Million	Fair value measurement at 2018		
	Level 1	Level 2	Level 3
Investment properties	–	136,676	–
Investment properties under development	–	–	31,186

The Group's policy is to recognize transfers between levels of fair value hierarchy at the time at which they occur. During the year, other than the transfers from investment properties under development to investment properties upon their completion, there were no transfers between levels of fair value hierarchy (2018: Nil).

The Group's investment properties and investment properties under development were revalued as of December 31, 2019 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis. Management has discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

11 Property, Plant and Equipment (Continued)

(c) Fair value measurement of properties (Continued)

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

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

(iii) Information about Level 3 fair value measurements

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

- Estimated development costs to be expended to complete the properties that would be incurred by a market participant; and
- Estimated profit margin that a market participant would require to hold and develop the property to completion.

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

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

The total estimated development costs of each of the Group's investment properties under development ranged from HK$0.2 billion to HK$13.6 billion (2018: HK$1.7 billion to HK$17.2 billion). The estimates are largely consistent with the budgets developed internally by the Group based on management experience and knowledge of market conditions.

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

HK$ Million	Investment properties under development	
	2019	2018
At January 1	**31,186**	21,592
Exchange adjustment	**(698)**	(896)
Additions	**15,091**	11,085
Decrease in fair value	**(1,519)**	–
Transfer to investment properties	**(14,854)**	(595)
Transfer to properties for sale	**(1,604)**	–
At December 31	**27,602**	31,186
Total loss for the year included in profit or loss	**(1,519)**	–

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

11 Property, Plant and Equipment (Continued)

(d) An analysis of net book value of investment properties and investment properties under development is as follows:

HK$ Million	Investment properties		Investment properties under development	
	2019	2018	**2019**	2018
In Hong Kong				
– long-term leases (over 50 years)	**42,707**	42,519	**–**	–
– medium-term leases (10 to 50 years)	**21,952**	23,546	**500**	–
Outside Hong Kong				
– long-term leases (over 50 years)	**–**	–	**812**	912
– medium-term leases (10 to 50 years)	**94,875**	70,611	**26,290**	30,274
	159,534	136,676	**27,602**	31,186

(e) The net book value of other property, plant and equipment of the Group included long-term leases of HK$14 million (2018: HK$14 million) in respect of land and buildings held in Hong Kong, medium-term leases of HK$4 million (2018: HK$5 million) and long-term leases of HK$31 million (2018: HK$33 million) in respect of land and buildings held outside Hong Kong.

12 Leases

(a) As a lessee

The Group leases properties for property leasing business and administrative use.

Most of the Group's leased properties meet the definition of investment properties and are presented in the consolidated statement of financial position as investment properties. The Group did not recognize right-of-use assets and lease liabilities for other leases as these leases are of short-term or of low-value assets.

Amounts recognized in profit or loss:

HK$ Million	2019
Interest on lease liabilities	**16**
Expenses relating to short-term leases	**7**
	23

Lease liabilities recognized in the consolidated statement of financial position:

HK$ Million	2019
Current liabilities	**23**
Non-current liabilities	**293**
	316

A maturity analysis of lease liabilities is disclosed in note 31(b).

12 Leases (Continued)

(a) As a lessee (Continued)

Amounts included in the cash flow statement:

HK$ Million	2019
Within operating cash flows	(9)
Within financing cash flows	(24)
	(33)

(b) As a lessor

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date at which time all terms are renegotiated. Certain long-term leases contain rent review or adjustment clauses and the Group has a regular proportion of leases up for renewal each year. Certain leases include variable lease payments calculated with reference to the revenue of tenants.

Lease income from lease contracts in which the Group acts as a lessor is as below:

HK$ Million	2019	2018
Operating leases		
Fixed or variable depending on an index or rate	7,226	6,913
Variable not depending on an index or rate	487	431
	7,713	7,344

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments under non-cancellable operating leases to be received after the reporting date.

HK$ Million	2019	2018
Within 1 year	5,573	5,442
After 1 year but within 2 years	3,600	3,601
After 2 years but within 3 years	2,091	2,161
After 3 years but within 4 years	1,331	783
After 4 years but within 5 years	764	434
After 5 years	1,307	921
	14,666	13,342

13 Interest in Joint Ventures

HK$ Million	2019	2018
Share of net assets	1,296	1,330

Details of joint ventures are set out in note 40. The aggregate financial information related to the Group's share of joint ventures that are not individually material are as follows:

HK$ Million	2019	2018
Non-current assets	1,333	1,359
Current assets	5	5
Non-current liabilities	(9)	(8)
Current liabilities	(33)	(26)
Net assets	1,296	1,330

HK$ Million	2019	2018
Revenue	66	70
Profit and total comprehensive income for the year	9	97

14 Other Assets

As of December 31, 2019, other assets comprised investments in unlisted equity instruments of HK$87 million (2018: HK$93 million) in respect of the investment in Ever Light Limited. This investment was designated as at FVTOCI because the investment is expected to be held for long-term strategic purposes.

15 Cash and Deposits with Banks

HK$ Million	2019	2018
Cash at banks	700	994
Time deposits recoverable within 1 year	2,606	9,516
	3,306	10,510
Time deposits recoverable after 1 year	–	1,853
Cash and deposits with banks in the consolidated statement of financial position	3,306	12,363
Less: Bank deposits with maturity greater than 3 months	(1,933)	(3,807)
Cash and cash equivalents in the consolidated cash flow statement	1,373	8,556

During the year, the Group's cash and deposits with banks were interest-bearing at an average rate of 2.3% (2018: 2.5%) per annum. The currencies of cash and deposits with banks at the year end date were as follows:

HK$ Million	2019	2018
Hong Kong Dollars	2,056	4,673
Hong Kong Dollar equivalent of:		
Renminbi	1,150	7,681
United States Dollars	100	9
	3,306	12,363

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

HK$ Million	2019	2018
Bank loans and other borrowings (Note 19)	29,673	27,253
Less: Cash and deposits	(3,306)	(12,363)
Net Debt	26,367	14,890

16 Trade and Other Receivables

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

HK$ Million	2019	2018
Not past due or less than 1 month past due	23	13
1 – 3 months past due	27	4
More than 3 months past due	2	2
	52	19

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which are calculated using a provision matrix. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover the potential exposure to credit risk, the allowance for expected credit losses is therefore insignificant. The details on the Group's credit policy are set out in note 31(c).

(b) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$279 million (2018: HK$285 million).

17 Properties for Sale

HK$ Million	2019	2018
In mainland China		
– Properties under development for sale	1,604	–
In Hong Kong		
– Completed properties for sale	935	1,239
– Properties under development for sale	3,103	1,203
	4,038	2,442
	5,642	2,442

During the year ended December 31, 2019, properties for sale with a carrying amount of HK$202 million (2018: Nil) were transferred to investment properties upon the change in intended use. The fair value of these properties at the date of transfer was HK$668 million. The difference between the fair value and carrying amount was recognized as "net increase in fair value of properties" in the consolidated statement of profit or loss.

During the year ended December 31, 2019, investment properties and investment properties under development with a carrying amount of HK$3,423 million (2018: Nil) were transferred to properties for sale upon the change in intended use (Note 11).

The amounts of properties under development for sale are expected to be recovered after more than one year.

18 Assets Held for Sale

HK$ Million	2018
Investment properties	101
Deferred tax liabilities	3

The balance at December 31, 2018 represented the following:

- a residential unit and several car parking spaces at Garden Terrace in Hong Kong which were disposed of in April 2019; and
- an investment property of a car parking space at The Long Beach in Hong Kong which was disposed of in February 2019.

The investment properties were stated at fair value with reference to the agreed selling prices as stated in the sale and purchase agreements and the fair value measurement of the properties was classified as Level 2 valuation (Note 11(c)(i)) as there was no significant unobservable input.

19 Bank Loans and Other Borrowings

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

HK$ Million	2019	2018
Bank loans (Note 19(a))		
Within 1 year or on demand	2,259	2,458
After 1 year but within 2 years	1,632	3,080
After 2 years but within 5 years	10,815	5,789
Over 5 years	1,572	2,463
	16,278	13,790
Other borrowings (Note 19(b))		
Within 1 year or on demand	435	–
After 1 year but within 2 years	5,615	435
After 2 years but within 5 years	7,468	12,178
Over 5 years	–	970
	13,518	13,583
	29,796	27,373
Less: unamortized front end fees	(123)	(120)
Total bank loans and other borrowings	29,673	27,253
Amount due within 1 year included under current liabilities	(2,694)	(2,414)
	26,979	24,839

19 Bank Loans and Other Borrowings (Continued)

(a) All bank loans are interest-bearing at rates ranging from 1.5% to 5.7% (2018: 1.3% to 5.7%) per annum during the year.

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

At December 31, 2019, the Group had HK$9,399 million (2018: HK$16,224 million) of undrawn committed banking facilities.

(b) The Group has a USD3 billion (2018: USD3 billion) Medium Term Note Program and a RMB10 billion (2018: RMB10 billion) green bond program. These bonds were issued with coupon rates ranging from 2.95% to 5.00% (2018: 2.95% to 5.00%) per annum.

20 Trade and Other Payables

HK$ Million	2019	2018
Creditors and accrued expenses (Note 20(a))	6,323	3,528
Contract liabilities (Note 20(b))	62	47
Deposits received (Note 20(c))	2,526	2,399
	8,911	5,974

(a) Creditors and accrued expenses include retention money payable of HK$291 million (2018: HK$323 million) which is not expected to be settled within one year.

Included in trade and other payables is an amount of HK$601 million (2018: Nil) due to a fellow subsidiary, which is the joint developer of a project in which the Group and the fellow subsidiary hold respective interests of 66.67% and 33.33%. The amount represents the contribution by the fellow subsidiary in proportion to its interest to finance the project, and is unsecured, non-interest bearing and has no fixed terms of repayment.

(b) Contract liabilities represent building management fees and other income from property leasing received in advance of HK$62 million (2018: HK$47 million).

Building management fees and other rental related charges are due for payment on the first day of the service period. The fees and charges received before the payment due date are classified as contract liabilities and recognized as revenue when the services are rendered.

(c) In the amount of deposits received, HK$1,505 million (2018: HK$1,430 million) are not expected to be settled within one year.

20 Trade and Other Payables (Continued)

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

HK$ Million	2019	2018
Due within 3 months	3,995	1,737
Due after 3 months	816	850
	4,811	2,587

21 Lease Liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities:

HK$ Million	2019			2018		
	Present value of minimum lease payments	Interest expense in future periods	Total minimum lease payments	Present value of minimum lease payments	Interest expense in future periods	Total minimum lease payments
Payable within 1 year	23	–	23	22	–	22
Payable after 1 year but within 5 years	86	14	100	79	12	91
Payable after 5 years	207	155	362	219	175	394
	316	169	485	320	187	507

22 Taxation in the Consolidated Statement of Financial Position

(a) Current taxation

HK$ Million	2019	2018
Hong Kong Profits Tax	615	242
Mainland China Income Tax	194	291
	809	533

22 Taxation in the Consolidated Statement of Financial Position (Continued)

(b) Deferred tax liabilities

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

HK$ Million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Future benefit of tax losses	Others	Total
At January 1, 2018	1,539	7,446	(41)	81	9,025
Exchange adjustments	(51)	(339)	–	(1)	(391)
Charged/(Credited) to profit or loss (Note 8(a))	101	66	(24)	2	145
Transfer to liabilities directly associated with assets held for sale (Note 18)	(3)	–	–	–	(3)
At December 31, 2018 and January 1, 2019	1,586	7,173	(65)	82	8,776
Exchange adjustments	**(25)**	**(157)**	**–**	**(1)**	**(183)**
Charged/(Credited) to profit or loss (Note 8(a))	**94**	**3,766**	**(6)**	**12**	**3,866**
At December 31, 2019	**1,655**	**10,782**	**(71)**	**93**	**12,459**

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

(c) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of HK$6,056 million (2018: HK$5,053 million) sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilized is not probable at December 31, 2019. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in mainland China expire five years after the relevant accounting year end date.

23 Share Capital

	2019		2018	
	Number of shares Million	Amount of share capital HK$ Million	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	**4,498**	**39,915**	4,498	39,912
Share issued under share option scheme	**–**	**–**	–	3
At December 31	**4,498**	**39,915**	4,498	39,915

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

24 Reserves

(a) The Group

HK$ Million	Other reserves						
	Exchange reserve	Hedging reserve	Investment revaluation reserve	Employee share-based compensation reserve	Total	Retained profits	Total reserves
At January 1, 2018	1,573	(134)	85	727	2,251	93,995	96,246
Profit for the year	–	–	–	–	–	8,078	8,078
Exchange difference arising from translation to presentation currency	(3,374)	–	–	–	(3,374)	–	(3,374)
Cash flow hedges: net movement in hedging reserve	–	(9)	–	–	(9)	–	(9)
Net change in fair value of equity investments	–	–	8	–	8	–	8
Total comprehensive income for the year	(3,374)	(9)	8	–	(3,375)	8,078	4,703
Final dividend in respect of previous year	–	–	–	–	–	(2,609)	(2,609)
Interim dividend in respect of current year	–	–	–	–	–	(765)	(765)
Employee share-based payments	–	–	–	7	7	64	71
At December 31, 2018 and January 1, 2019	(1,801)	(143)	93	734	(1,117)	98,763	97,646
Profit for the year	–	–	–	–	–	6,172	6,172
Exchange difference arising from translation to presentation currency	(1,907)	–	–	–	(1,907)	–	(1,907)
Net investment hedge – net gain	20	–	–	–	20	–	20
Cash flow hedges: net movement in hedging reserve	–	136	–	–	136	–	136
Net change in fair value of equity investments	–	–	(6)	–	(6)	–	(6)
Total comprehensive income for the year	(1,887)	136	(6)	–	(1,757)	6,172	4,415
Final dividend in respect of previous year	–	–	–	–	–	(2,609)	(2,609)
Interim dividend in respect of current year	–	–	–	–	–	(765)	(765)
Employee share-based payments	–	–	–	30	30	37	67
At December 31, 2019	(3,688)	(7)	87	764	(2,844)	101,598	98,754

24 Reserves (Continued)

(a) The Group (Continued)

The retained profits of the Group at December 31, 2019 included HK$921 million (2018: HK$921 million) in respect of statutory reserves of the subsidiaries in mainland China.

The exchange reserve of the Group comprises exchange differences arising from the translation of the Group's operations in mainland China and the effective portion of any foreign exchange differences arising from hedging of net investments in foreign operations (Note 1(m)(2)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss (Note 1(m)(1)).

The investment revaluation reserve comprises the cumulative net change in the fair value of equity investments measured at FVTOCI (Note 1(k)).

The employee share-based compensation reserve comprises the fair value of share options granted which are not yet exercised, as explained in note 1(ab).

(b) The Company

HK$ Million	Employee share-based compensation reserve	Retained profits	Total reserves
At January 1, 2018	727	23,327	24,054
Profit and total comprehensive income for the year	–	1,630	1,630
Final dividend in respect of previous year	–	(2,609)	(2,609)
Interim dividend in respect of current year	–	(765)	(765)
Employee share-based payments	7	64	71
At December 31, 2018 and January 1, 2019	734	21,647	22,381
Profit and total comprehensive income for the year	–	4,486	4,486
Final dividend in respect of previous year	–	(2,609)	(2,609)
Interim dividend in respect of current year	–	(765)	(765)
Employee share-based payments	30	37	67
At December 31, 2019	**764**	**22,796**	**23,560**

The aggregate amount of the Company's reserves available for distribution to equity shareholders of the Company at December 31, 2019 was HK$22,796 million (2018: HK$21,647 million).

24 Reserves (Continued)

(c) Capital management

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

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

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

The Group has a net debt position as of December 31, 2019 (Note 15). Net debt to equity ratio and debt to equity ratio as of December 31, 2019 were 17.8% (2018: 10.4%) and 20.1% (2018: 19.0%), respectively. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 Cash Generated from Operations

HK$ Million	2019	2018
Profit before taxation	14,809	9,921
Adjustments for:		
Dividend income from equity investments measured at FVTOCI	(3)	–
Ineffectiveness on cash flow hedges	(1)	1
Gain on disposal of investment properties	–	(71)
Gain on disposal of assets held for sale	–	(25)
Loss on disposal of other property, plant and equipment	1	1
Employee share-based payments	67	71
Depreciation	50	45
Net increase in fair value of properties	(8,797)	(4,170)
Interest income on bank deposits	(146)	(445)
Finance costs	46	1,069
Share of profits of joint ventures	(9)	(97)
Decrease in properties for sale	83	370
Increase in trade and other receivables	(248)	(33)
Increase in creditors and accrued expenses and contract liabilities	170	25
Increase in deposits received	158	139
Cash generated from operations	6,180	6,801

26 Acquisition of Subsidiaries

(a) During the year ended December 31, 2019, by forming a subsidiary in which the Group and a fellow subsidiary hold respective interests of 66.67% and 33.33%, the Group obtained control over a group of subsidiaries from the fellow subsidiary with the following amounts of assets and liabilities at the time when the transaction took place:

HK$ Million	**2019** (Note)
Investment properties under development	**601**
Trade and other payables	**601**

Note:

The transaction did not require settlement by cash or cash equivalents.

(b) During the year ended December 31, 2018, the Group acquired a group comprising several subsidiaries. The fair values of assets acquired and liabilities assumed were as follows:

HK$ Million	2018
Loan from the vendor of the acquired companies	(787)
Trade and other receivables (Note)	96
Properties for sale	1,200
Net assets acquired	509
Acquisition of a loan from the vendor of the acquired companies	787
Total consideration	1,296
Less: consideration payable in future included in trade and other payables (Note)	(96)
Cash outflow on acquisition	1,200

Note:

According to the terms and conditions of the sale and purchase agreement, the consideration payable will be settled when the trade and other receivables balance amounting to HK$96 million is received by the Group.

27 Reconciliation of Liabilities Arising from Financing Activities

HK$ Million	Bank loans and other borrowings (Note 19)	Lease liabilities (Note 21)	Total
At January 1, 2018	24,820	338	25,158
Cash flows	3,053	(19)	3,034
Non-cash changes:			
Unwind of discount and amortization of transaction costs	28	16	44
Exchange adjustment	(648)	(15)	(663)
At December 31, 2018, as previously reported	27,253	320	27,573
Impact of initial adoption of HKFRS 16 (Note 2)	**–**	**11**	**11**
At January 1, 2019, restated	**27,253**	**331**	**27,584**
Cash flows	**2,691**	**(24)**	**2,667**
Non-cash changes:			
Unwind of discount and amortization of transaction costs	**41**	**16**	**57**
Exchange adjustment	**(312)**	**(7)**	**(319)**
At December 31, 2019	**29,673**	**316**	**29,989**

28 Commitments

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

HK$ Million	**2019**	2018
Contracted for	**4,721**	14,255
Authorized but not contracted for	**21,117**	20,556
	25,838	34,811

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

29 Employee Benefits

(a) Retirement benefits

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

Contributions are made by both the employer and the employees at a certain percentage of employees' basic salaries, the percentage varying with their length of service. When an employee leaves the scheme prior to his or her interest in the Group's contributions being fully vested, forfeited contributions are refunded to the Group. Total contributions made by the Group for the year amounted to HK$34 million (2018: HK$34 million) and forfeited sums refunded to the Group amounted to HK$4 million (2018: HK$3 million).

A master trust Mandatory Provident Fund Scheme (the "MPF Scheme") is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of HK$30,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. Total MPF contributions made by the Group for the year amounted to HK$7 million (2018: HK$7 million).

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

Staff in the Company's subsidiaries operating in mainland China are members of a retirement benefits scheme (the "Mainland RB Scheme") operated by the local municipal government in mainland China. The only obligation of the subsidiaries in mainland China is to contribute a certain percentage of their payroll to Mainland RB Scheme to fund the retirement benefits. The local municipal government in mainland China undertakes to assume the retirement benefits obligations of all existing and future retired employees of subsidiaries in mainland China. Total contributions made by subsidiaries in mainland China for the year amounted to HK$57 million (2018: HK$62 million).

29 Employee Benefits (Continued)

(b) Equity compensation benefits

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

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

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

As of the date of this report, the total number of shares available for issue under the 2012 Share Option Scheme is 188,529,753 shares, representing 4.19% of the total number of issued shares of the Company. The total number of shares issued and to be issued upon exercise of options (including both exercised and outstanding) granted to each participant in any 12-month period shall not exceed 1% of shares of the Company in issue.

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

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

(i) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2019	Exercised	Forfeited/ Lapsed	**Outstanding on December 31, 2019**	Period during which options are exercisable	Exercise price (HK$)
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	30,990,000	–	(650,000)	**30,340,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	44,370,000	–	(650,000)	**43,720,000**		

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

During the year, 650,000 (2018: 340,000) options were forfeited upon cessations of grantees' employments and no option (2018: 12,109,000) lapsed due to the expiry of the period for exercising the options.

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

	2019		2018	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**30.28**	**44,370,000**	27.71	56,962,000
Exercised	**–**	**–**	17.36	(143,000)
Forfeited	**30.79**	**(650,000)**	26.05	(340,000)
Lapsed	**–**	**–**	18.47	(12,109,000)
Outstanding at December 31	**30.27**	**43,720,000**	30.28	44,370,000
Exercisable at December 31	**30.27**	**43,720,000**	30.28	44,370,000

The weighted average remaining contractual life of options outstanding at the end of the reporting period was 0.8 year (2018: 1.8 years).

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

(ii) 2012 Share Option Scheme

Date granted	Number of share options: Outstanding on January 1, 2019	Granted	Forfeited/ Lapsed	Outstanding on December 31, 2019	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	27,350,000	–	(1,300,000)	**26,050,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	23,622,000	–	(1,162,000)	**22,460,000**	December 5, 2016 to December 4, 2024	22.60
August 10, 2017	39,495,000	–	(3,922,500)	**35,572,500**	August 10, 2019 to August 9, 2027	19.98
May 16, 2018	10,000,000	–	–	**10,000,000**	May 16, 2020 to May 15, 2028	18.98
June 28, 2019	–	55,492,000	(2,296,000)	**53,196,000**	June 28, 2021 to June 27, 2029	18.58
Total	100,467,000	55,492,000	(8,680,500)	**147,278,500**		

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

In respect of options granted during 2019, the closing price of shares immediately before the date of grant was HK$18.52.

During the year, 8,680,500 (2018: 6,473,000) options were forfeited upon cessations of the grantees' employments.

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

	2019		2018	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**22.73**	**100,467,000**	23.06	96,940,000
Granted	**18.58**	**55,492,000**	18.98	10,000,000
Forfeited	**21.19**	**(8,680,500)**	21.81	(6,473,000)
Outstanding at December 31	**21.26**	**147,278,500**	22.73	100,467,000
Exercisable at December 31	**25.22**	**52,067,950**	26.29	41,523,200

The weighted average remaining contractual life of options outstanding at the end of the reporting period was 7.2 years (2018: 6.9 years).

29 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

(ii) 2012 Share Option Scheme (Continued)

The fair value of share options granted was estimated at the date of grant using the Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted. In respect of the share options granted during the year, the fair value, terms and conditions, and assumptions are as follows:

Fair value at grant date	HK$2.45
Share price at grant date	HK$18.58
Exercise price	HK$18.58
Risk-free interest rate	1.39%
Expected life (in years)	6
Expected volatility	23.38%
Expected dividends per share	HK$0.75

The expected volatility is based on the historical volatility and the expected dividends per share are based on historical dividends. Changes in the above assumptions could materially affect the fair value estimate.

(iii) In respect of share options granted to the directors, the related charge recognized for the year ended December 31, 2019, estimated in accordance with the Group's accounting policy in note 1(ab)(2) was as follows:

(1) Mr. Ronnie C. Chan, HK$4.0 million (2018: HK$5.2 million);
(2) Mr. Weber W.P. Lo, HK$8.5 million (2018: HK$4.9 million);
(3) Mr. H.C. Ho, HK$2.6 million (2018: HK$3.5 million);
(4) Mr. Adriel W. Chan, HK$2.1 million (2018: HK$1.6 million); and
(5) Mr. Philip N.L. Chen, HK$2.7 million (2018: HK$4.8 million).

30 Material Related Party Transactions

Except for the emoluments to directors and key management personnel disclosed in notes 7 and 29(b) and the transactions and balances already disclosed elsewhere in the financial statements, the Group did not have any material related party transactions in the ordinary course of business.

The acquisition of subsidiaries as disclosed in note 26(a) constitutes a connected transaction as defined in Chapter 14A of the Listing Rules and the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing rules.

31 Financial Risk Management Objectives and Policies

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

(a) Interest rate risk

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

The interest rates of interest-bearing financial assets and liabilities are disclosed in notes 15 and 19.

Based on the simulations performed at year end in relation to the Group's bank deposits and borrowings, it was estimated that the impact of a 100 basis-point increase in market interest rates from the rates applicable at the year end date, with all other variables held constant, would decrease the Group's profit after taxation and total equity by approximately HK$122 million (2018: HK$22 million).

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

- changes in market interest rates affect the interest income and interest expense of floating rate financial instruments and bank borrowings; and
- all other financial assets and liabilities are held constant.

The analysis was performed on the same basis for 2018.

31 Financial Risk Management Objectives and Policies (Continued)

(b) Liquidity risk

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

HK$ Million		Contractual undiscounted cash flow				
	Carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Bank loans and other borrowings	**29,673**	**34,040**	**3,961**	**8,243**	**19,559**	**2,277**
Trade and other payables	**8,911**	**8,911**	**7,113**	**869**	**793**	**136**
Lease liabilities	**316**	**485**	**23**	**25**	**75**	**362**
At December 31, 2019	**38,900**	**43,436**	**11,097**	**9,137**	**20,427**	**2,775**

HK$ Million		Contractual undiscounted cash flow				
	Carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Bank loans and other borrowings	27,253	32,344	3,743	4,681	19,751	4,169
Trade and other payables	5,974	5,974	4,221	870	726	157
Lease liabilities	320	507	22	22	69	394
At December 31, 2018	33,547	38,825	7,986	5,573	20,546	4,720

31 Financial Risk Management Objectives and Policies (Continued)

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables with tenants and deposits held with reputable banks and financial institutions.

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

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

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

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

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

The Group measures loss allowances for trade receivables with tenants in accordance with note 1(n). The allowance for expected credit losses is insignificant.

(d) Currency risk

The Group adopts a conservative risk management policy to manage foreign currency exposure. The level of hedge is decided through cost and benefit analysis with reference to prevailing market situation. If appropriate, the Group may use derivative financial instruments solely for hedging purposes. These derivatives reduce the uncertainty of interest payments and principal repayments of foreign currency debts and can be entered into on or after the issuance of a foreign currency debt.

Currency risk arises from assets and liabilities denominated in a currency other than the functional currency of the Group's entities to which they related. The Group has bonds outstanding amounting to USD1,000 million (2018: USD1,000 million). The currency risk arising from the USD denominated bonds is hedged by back-to-back USD/HKD cross currency swaps, at exchange rate of 7.75 HKD/USD and fixed interest rates ranging from 4.395% to 4.715% per annum. These swaps will mature in 2021 and 2022.

31 Financial Risk Management Objectives and Policies (Continued)

(d) Currency risk (Continued)

The Group has designated the cross currency swaps in their entirety as the hedging instruments of the foreign currency risk arising from the USD denominated bonds. The table below summarizes the effect of the hedge accounting:

HK$ Million	Notional amount of hedging instruments	Carrying amount of hedging instruments included in: Trade and other receivables	Carrying amount of hedging instruments included in: Trade and other payables	Change in fair value used for measuring hedge ineffectiveness: Hedging instruments	Change in fair value used for measuring hedge ineffectiveness: Hedged items	Hedge ineffectiveness* recognized in profit or loss – other net income/(loss)	Change in fair value of hedging instruments recognized in other comprehensive income	Amount reclassified from hedging reserve to profit or loss that are charged/(credited) to: Finance costs	Amount reclassified from hedging reserve to profit or loss that are charged/(credited) to: Other net income/(loss)
2019									
	7,750	**67**	**–**	**83**	**82**	**1**	**82**	**12**	**42**
2018									
	7,750	1	(10)	(5)	(4)	(1)	(4)	11	(16)

* The hedge ratio is determined to be 1:1 as all critical terms were matched. However, as the cross currency swaps were not entered into on January 1, 2017 (the date designated as the hedging instruments), ineffectiveness arose as terms of cross currency swaps were not exactly the same as the market position of the bonds.

The Group engages in property development and investments in mainland China through local subsidiaries whose net carrying values are exposed to currency risk. In addition, the Group has Renminbi deposits of RMB1,030 million (2018: RMB6,738 million), for which there are currency risks but which are held to meet ongoing Renminbi payment obligations in relation to development projects in mainland China. Where appropriate, the Group seeks to minimize the exposure to currency risk in mainland China through borrowings denominated in Renminbi.

During 2019, the Group's Renminbi denominated green bond in Hong Kong has been designated as a hedging instrument for the changes in the value of the net investment in mainland China attributable to changes in the HKD/RMB spot rate. It is the Group's policy to monitor the currency risk arising from the net investment in mainland China and to adjust the hedging strategy when necessary. The risk management policy and hedging strategy are reviewed in light of the changes in the value of the Group's total net investment in mainland China.

The carrying amount of the Renminbi denominated bond at December 31, 2019 was HK$1,114 million. The hedge was determined to be fully effective as the carrying value of the hedged item did not drop below the carrying amount of the hedging instrument throughout the hedging period. A foreign exchange gain of HK$20 million was recognized in the Group's other comprehensive income for the year on translation of the bond to Hong Kong dollars.

Management estimated that a 5% (2018: 5%) appreciation/depreciation of Renminbi against Hong Kong dollar would increase/decrease the Group's equity attributable to shareholders by HK$4,198 million (2018: HK$3,753 million).

The above analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2018.

31 Financial Risk Management Objectives and Policies (Continued)

(e) Fair Value

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Financial assets and liabilities measured at fair value

Derivative financial instruments - cross currency swaps

The fair value of cross currency swaps as of December 31, 2019 of HK$67 million recorded under "Trade and other receivables" (2018: HK$1 million recorded under "Trade and other receivables" and HK$10 million recorded under "Trade and other payables") in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

Investment in equity instruments

The fair value of non-publicly traded equity investments as of December 31, 2019 of HK$87 million (2018: HK$93 million) in Level 3 is determined by reference to the net asset value of these investments.

Transfers of instruments between the three-level fair value hierarchy

During the year, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2018: Nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as of December 31, 2018 and 2019.

32 Significant Accounting Estimates and Judgments

Key sources of estimation uncertainty

Notes 11(c), 29(b) and 31(e) contain information about the assumptions and their risk relating to valuation of investment properties and investment properties under development, fair value of share options granted and derivative financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Properties for sale

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

(b) Income taxes

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

(c) Recognition of deferred tax assets

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

33 Company-Level Statement of Financial Position

At December 31, 2019

HK$ Million	Note	2019	2018
Non-current assets			
Interest in subsidiaries	34	67,721	84,537
Current assets			
Trade and other receivables		4	4
Current liabilities			
Trade and other payables		49	49
Net current liabilities		(45)	(45)
Total assets less current liabilities		67,676	84,492
Non-current liabilities			
Borrowings		1,114	1,136
Amounts due to subsidiaries	34(c)	3,087	21,060
		4,201	22,196
NET ASSETS		63,475	62,296
Capital and reserves			
Share capital	23	39,915	39,915
Reserves	24	23,560	22,381
TOTAL EQUITY		63,475	62,296

Weber W.P. Lo
Chief Executive Officer

H.C. Ho
Chief Financial Officer

34 Interest in Subsidiaries

HK$ Million	2019	2018
Unlisted shares, at cost	8	8
Amounts due from subsidiaries (Note 34(b))	67,713	84,529
	67,721	84,537

(a) Details of principal subsidiaries are set out in note 39.

(b) Except for the amount due from a subsidiary of HK$1,112 million (2018: HK$1,136 million) which is interest bearing at 5.25% (2018: 5.25%) per annum and repayable in July 2021, amounts due from subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current assets as they are not expected to be recoverable within the next 12 months.

(c) Amounts due to subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current liabilities as they are not expected to be repaid within the next 12 months.

35 Ultimate Holding Company

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

36 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Year Ended December 31, 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2019 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

37 Comparative Figures

The Group initially applied HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. As a result, lease liabilities as of December 31, 2018 or before represent the amounts in respect of finance leases under HKAS 17 only.

The Group applied Amendments to HKAS 23 at January 1, 2019 using a prospective approach according to the transitional provisions. Comparative information is not restated.

Further details of the changes in accounting policies are disclosed in note 2.

38 Approval of Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors on January 21, 2020.

39 Principal Subsidiaries

At December 31, 2019

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Antonis Limited*	10,000	100	100	Property leasing	Hong Kong
AP City Limited	2	100	–	Property leasing	Hong Kong
AP Joy Limited	2	100	–	Property development & leasing	Hong Kong
AP Properties Limited				Property development & leasing	Hong Kong
'A' shares	34	100	–		
'B' shares	6	100	–		
AP Star Limited*	2	100	–	Investment holding	Hong Kong
AP Success Limited	2	100	–	Property leasing	Hong Kong
AP Universal Limited*	2	100	–	Property leasing	Hong Kong
AP Win Limited*	1,000,000	100	–	Property leasing	Hong Kong
AP World Limited	2	100	100	Property development & leasing	Hong Kong
Bonna Estates Company Limited	1,000,000	100	100	Property leasing	Hong Kong
Caddo Enterprises, Limited*	4,000,000	100	–	Property leasing	Hong Kong
Country Bond Development Limited				Investment holding	Hong Kong
'A' shares	990	79.8	–		
'B' share	1	100	–		
Dokay Limited*	2	100	–	Property leasing	Hong Kong
Easegood Enterprises Limited	2	100	–	Investment holding	Hong Kong
Fu Yik Company Limited*	3	100	–	Property leasing	Hong Kong
Gala Ruby Limited*	2	100	100	Investment holding	Hong Kong
Grand Centre Limited	4	100	–	Property leasing	Hong Kong
Grand Hotel Group Limited	10,200	100	–	Apartment operating & management	Hong Kong
Grand Hotel Holdings Limited				Investment holding	Hong Kong
'A' shares	1,004,834,694	100	–		
'B' shares	6,000,000	100	–		
Hang Chui Company Limited	2	100	–	Property leasing	Hong Kong
Hang Far Company Limited*	2	100	–	Investment holding	Hong Kong
Hang Fine Company Limited	200	100	–	Property leasing	Hong Kong
Hang Kwok Company Limited*	10,000	100	–	Property leasing	Hong Kong
Hang Lung (Administration) Limited	10,000	100	100	Management services	Hong Kong
Hang Lung (Dalian) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Jiangsu) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Jinan) Limited	1	100	–	Investment holding	Hong Kong

39 Principal Subsidiaries (Continued)

At December 31, 2019

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Hang Lung (Kunming) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Liaoning) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Shenyang) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Tianjin) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Wuhan) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Wuxi) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung Gala Place Limited	2	100	–	Property leasing	Hong Kong
Hang Lung Project Management Limited*	10,000	100	100	Project management	Hong Kong
Hang Lung Property Management Limited*	100,000	100	–	Property management	Hong Kong
Hang Lung Real Estate Agency Limited*	2	100	100	Property agencies	Hong Kong
Hang Top Limited*	3	66.7	–	Investment holding	Hong Kong
Hang Wise Company Limited*	200	66.7	-	Property development	Hong Kong
HLP (China) Administrative Limited	1	100	-	Management services	Hong Kong
HLP (China) Limited	2	100	100	Investment holding	Hong Kong
HLP Finance Limited#	US$1	100	100	Financial services	British Virgin Islands
HLP Financial Services Limited	RMB1	100	–	Financial services	Hong Kong
HLP Treasury Limited	2	100	100	Financial services	Hong Kong
HLP Treasury Services Limited*	2	100	–	Financial services	Hong Kong
Hoi Sang Limited*	2	100	–	Investment holding	Hong Kong
Lockoo Limited*	1,000,002	100	–	Property development	Hong Kong
Mansita Limited*	2	100	–	Property leasing	Hong Kong
Modalton Limited	2	100	–	Property leasing	Hong Kong
Palex Limited*	2	100	–	Property leasing	Hong Kong
Passion Success Limited*	1	100	–	Investment holding	Hong Kong
Pocaliton Limited	2	100	–	Property leasing	Hong Kong
Rago Star Limited	2	100	–	Property leasing	Hong Kong
Stooket Limited	2	100	100	Property leasing	Hong Kong
Superlane Development Limited	1,000	66.7	–	Property development	Hong Kong
Tegraton Limited	2	100	–	Property leasing	Hong Kong
Total Select Limited	1	100	–	Property development	Hong Kong
Wai Luen Investment Company, Limited*	100,000	100	–	Property leasing	Hong Kong
Yangli Limited*	2	100	–	Property leasing	Hong Kong

39 Principal Subsidiaries (Continued)

At December 31, 2019

Wholly Foreign Owned Enterprises in Mainland China	Registered Capital	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Dalian Hang Lung Properties Ltd.	RMB5,586,877,355	100	–	Property development & leasing	Mainland China
Hangzhou Hang Lung Properties Ltd.	RMB11,767,500,000	100	–	Property development	Mainland China
Hubei Hang Lung Property Development Co., Ltd.	RMB7,900,000,000	100	–	Property development	Mainland China
Kunming Hang Ying Properties Ltd.	RMB7,384,884,075	100	–	Property development & leasing	Mainland China
Liaoning Hang Lung Properties Ltd.	RMB7,340,096,324	100	–	Property development & leasing	Mainland China
Shandong Hang Lung Properties Ltd.	US$385,000,000	100	–	Property development & leasing	Mainland China
Shenyang Hang Lung Properties Ltd.	US$349,990,000	100	–	Property development & leasing	Mainland China
Tianjin Hang Lung Properties Ltd.	HK$5,329,600,000	100	–	Property development & leasing	Mainland China
Wuxi Hang Lung Properties Ltd.	RMB4,691,746,261	100	–	Property development & leasing	Mainland China
Wuxi Hang Ying Properties Ltd.	RMB960,716,180	100	–	Property development & leasing	Mainland China

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

Operated in Hong Kong

* Not audited by KPMG

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

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

40 Joint Ventures

At December 31, 2019

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

* Not audited by KPMG

TEN-YEAR FINANCIAL SUMMARY

in HK$ million (unless otherwise stated)	For the years ended December 31 2019	2018	2017	2016
CONSOLIDATED STATEMENT OF PROFIT OR LOSS				
Revenue				
Property leasing	8,556	8,181	7,779	7,737
Property sales	296	1,227	3,420	5,322
	8,852	9,408	11,199	13,059
Operating profit				
Property leasing	6,325	6,060	5,672	5,710
Property sales	162	762	2,238	3,209
	6,487	6,822	7,910	8,919
Underlying net profit attributable to shareholders	4,474	4,093	5,530	6,341
Effect of changes in fair value of properties	1,698	3,985	2,594	(146)
Net profit attributable to shareholders	6,172	8,078	8,124	6,195
Dividends for the year/period	(3,418)	(3,374)	(3,374)	(3,373)
Retained profits for the year/period	2,754	4,704	4,750	2,822
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Net assets employed (Note 2)				
Investment properties	159,534	136,676	134,444	125,421
Investment properties under development	27,602	31,186	21,592	17,282
Properties for sale	5,642	2,442	1,612	2,352
Other assets	3,896	3,786	3,832	5,527
	196,674	174,090	161,480	150,582
Other liabilities	(22,495)	(15,606)	(16,521)	(15,680)
	174,179	158,484	144,959	134,902
Financed by				
Shareholders' equity	138,669	137,561	136,158	126,565
Non-controlling interests	9,143	6,033	6,087	5,580
Net debt / (cash)	26,367	14,890	2,714	2,757
	174,179	158,484	144,959	134,902
Number of shares issued (in million)	4,498	4,498	4,498	4,498
PER SHARE DATA				
Basic earnings (HK$)	$1.37	$1.80	$1.81	$1.38
Dividends (HK cents)	76¢	75¢	75¢	75¢
Interim	17¢	17¢	17¢	17¢
Final	59¢	58¢	58¢	58¢
Net assets attributable to shareholders (HK$)	$30.8	$30.6	$30.3	$28.1
Dividend payout ratio	55%	42%	42%	54%
Underlying dividend payout ratio	76%	82%	61%	53%
FINANCIAL INDICATORS				
Net debt to equity	17.8%	10.4%	1.9%	2.1%
Debt to equity	20.1%	19.0%	17.4%	20.5%
Interest cover (times)	4	7	11	16
Return on average shareholders' equity	4.5%	5.9%	6.2%	4.8%

Notes:

1. In November 2011, the Board of Directors approved the change of the Group's financial year end date from June 30 to December 31. Thus, the Group has a six-month financial period from July 1 to December 31, 2011.
2. Net assets employed are presented by excluding net debt/cash.

For the years ended December 31				July – December	For the years ended June 30	
2015	2014	2013	2012	2011 (Note 1)	2011	2010
7,751	7,216	6,638	6,098	2,876	5,161	4,546
1,197	9,814	2,500	1,274	193	3	7,511
8,948	**17,030**	**9,138**	**7,372**	**3,069**	**5,164**	**12,057**
5,704	5,589	5,326	4,896	2,301	4,194	3,726
844	7,419	1,511	846	150	2	5,256
6,548	**13,008**	**6,837**	**5,742**	**2,451**	**4,196**	**8,982**
4,387	**10,022**	**5,050**	**6,178**	**1,650**	**2,741**	**6,674**
705	1,682	2,162	2,217	866	3,051	16,887
5,092	**11,704**	**7,212**	**8,395**	**2,516**	**5,792**	**23,561**
(3,373)	(3,409)	(3,359)	(3,313)	(1,610)	(3,175)	(2,951)
1,719	**8,295**	**3,853**	**5,082**	**906**	**2,617**	**20,610**
129,425	120,137	107,587	98,223	93,610	85,918	80,965
16,709	25,611	30,478	24,482	23,613	21,524	15,326
3,830	4,046	5,695	6,109	6,114	5,963	5,855
2,765	3,439	4,199	3,025	3,594	4,075	2,619
152,729	153,233	147,959	131,839	126,931	117,480	104,765
(16,355)	(19,078)	(16,134)	(14,150)	(12,911)	(13,022)	(12,055)
136,374	**134,155**	**131,825**	**117,689**	**114,020**	**104,458**	**92,710**
128,989	132,327	124,534	117,928	111,462	109,719	93,105
5,903	6,676	6,633	6,050	5,556	5,205	4,682
1,482	(4,848)	658	(6,289)	(2,998)	(10,466)	(5,077)
136,374	134,155	131,825	117,689	114,020	104,458	92,710
4,497	4,485	4,479	4,477	4,473	4,472	4,159
$1.13	$2.61	$1.61	$1.88	$0.56	$1.33	$5.68
75¢	76¢	75¢	74¢	36¢	71¢	71¢
17¢	17¢	17¢	17¢	–	17¢	17¢
58¢	59¢	58¢	57¢	36¢	54¢	54¢
$28.7	$29.5	$27.8	$26.3	$24.9	$24.5	$22.4
66%	29%	47%	39%	64%	53%	13%
77%	34%	66%	54%	97%	113%	44%
1.1%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%
24.3%	25.2%	26.7%	24.0%	17.7%	14.6%	6.6%
16	24	19	61	95	148	43
3.9%	9.1%	5.9%	7.3%	4.6%	5.7%	28.6%

Financial Terms

Finance costs	Total of interest expense on total borrowings and other borrowing costs, net of amount capitalized
Total borrowings	Total of bank loans & other borrowings, net of unamortized other borrowing costs
Net debt	Total borrowings net of cash and deposits with banks
Net profit attributable to shareholders	Profit for the year (after tax) less amounts attributable to non-controlling interests
Underlying net profit attributable to shareholders	Net profit attributable to shareholders excluded changes in fair value of properties net of related income tax and non-controlling interests

Financial Ratios

$$\text{Basic earnings per share} = \frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Debt to equity} = \frac{\text{Total borrowings}}{\text{Total equity}}$$

$$\text{Net assets attributable to shareholders per share} = \frac{\text{Net assets attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Net debt to equity} = \frac{\text{Net debt}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Profit from operations before changes in fair value of properties}}{\text{Finance costs before capitalization less interest income}}$$

General Terms

AGM	annual general meeting of the Company
Articles of Association	the articles of association of the Company
Board	board of directors of the Company
Board Member(s)	director(s) of the Board
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company	Hang Lung Properties Limited
ERM	enterprise risk management
ESG	environmental, social and governance
ESG Guide	Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules
Executive Board Members	executive directors of the Board
Group	the Company and its subsidiaries
HKEx	Hong Kong Exchanges and Clearing Limited
HKSAR	the Hong Kong Special Administrative Region of the People's Republic of China
HLG	Hang Lung Group Limited (the ultimate listed holding company of the Company)
INED(s)	independent non-executive director(s)
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
NED	non-executive director
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Stock Exchange	The Stock Exchange of Hong Kong Limited

Directors
Ronnie C. Chan *GBM (Chairman)*
Weber W.P. Lo *(Chief Executive Officer)*
Ronald J. Arculli *GBM, CVO, GBS, OBE, JP**
Nelson W.L. Yuen*
Dominic C.F. Ho*
Philip N.L. Chen#
Andrew K.C. Chan *BBS, JP**
H.K. Chang *GBS, JP**
Anita Y.M. Fung *BBS, JP**
H.C. Ho *(Chief Financial Officer)*
Adriel W. Chan

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

Audit Committee
Dominic C.F. Ho *(Chairman)*
Andrew K.C. Chan *BBS, JP*
H.K. Chang *GBS, JP*
Anita Y.M. Fung *BBS, JP*

Nomination and Remuneration Committee
Ronald J. Arculli *GBM, CVO, GBS, OBE, JP (Chairman)*
Dominic C.F. Ho
H.K. Chang *GBS, JP*

Authorized Representatives
Weber W.P. Lo
Margaret K.M. Yan

Company Secretary
Margaret K.M. Yan

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Auditor
KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

FINANCIAL CALENDAR

2019

July

Announcement of interim results	July 30, 2019

September

Interim dividend paid	September 26, 2019

2020

January

Announcement of annual results	January 21, 2020

April

Latest time for lodging transfers (for attending and voting at annual general meeting)	4:30 p.m. on April 23, 2020
Closure of share register (for attending and voting at annual general meeting)	April 24 to 29, 2020 (both days inclusive)
Annual general meeting (Details are set out in the notice of annual general meeting accompanying this annual report)	10:00 a.m. on April 29, 2020

May

Latest time for lodging transfers (for final dividend)	4:30 p.m. on May 6, 2020
Closure of share register (for final dividend)	May 7, 2020
Proposed final dividend payable	May 20, 2020

LISTING INFORMATION

At December 31, 2019

4,497,718,670 shares listed on The Stock Exchange of Hong Kong Limited

Stock Code

Hong Kong Stock Exchange: 00101
Reuters: 0101.HK
Bloomberg: 101 HK

Board Lot Size (Share)

1,000

American Depositary Receipt (ADR)

Sponsored Level-1 (Over the Counter)
CUSIP Number/Ticker Symbol: 41043M104/HLPPY
ADR to Underlying Share Ratio: 1:5
Depositary Bank: The Bank of New York Mellon
Website: http://www.adrbnymellon.com

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Tel : 2862 8555
Fax : 2865 0990

Investor Relations Contact

C.F. Kwan
Email: ir@hanglung.com

SHARE INFORMATION

	Share Price		Total Trading Volume		Share Price		Total Trading Volume
	High HK$	Low HK$	Number of Shares ('000)		High HK$	Low HK$	Number of Shares ('000)
2019				2018			
First quarter	19.40	14.38	377,954	First quarter	21.65	18.00	332,241
Second quarter	20.00	16.44	329,226	Second quarter	19.20	16.06	268,320
Third quarter	20.50	16.84	433,194	Third quarter	16.74	14.62	244,441
Fourth quarter	18.32	15.76	309,664	Fourth quarter	16.24	13.90	274,276
Share Price as at December 31, 2019:			**HK$17.10**	**Share Price as at December 31, 2018:**			**HK$14.92**
Market Capitalization as at December 31, 2019:			**HK$76.91 billion**	**Market Capitalization as at December 31, 2018:**			**HK$67.11 billion**

If there is any discrepancy or inconsistency between the English and the Chinese versions, the English version shall prevail.

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