恒隆集團有限公司
HANG LUNG GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00010)

2019 ANNUAL RESULTS

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恒隆集團 HANG LUNG GROUP

FINANCIAL HIGHLIGHTS

in HK$ Million (unless otherwise stated)

RESULTS

	2019	2018	Change
Revenue	**9,435**	10,015	-6%
Property Leasing	**9,139**	8,784	4%
Property Sales	**296**	1,231	-76%
Operating Profit	**6,898**	7,249	-5%
Property Leasing	**6,736**	6,484	4%
Property Sales	**162**	765	-79%
Net Profit Attributable to Shareholders	**6,816**	5,285	29%
Earnings Per Share (HK$)	**$5.01**	$3.88	29%
Dividends Per Share (HK$)	**$1.08**	$0.80	35%
Interim (Paid)	**$0.19**	$0.19	-
Special (Declared)	**$0.26**	-	N/A
Final (Proposed)	**$0.63**	$0.61	3%

UNDERLYING RESULTS

	2019	2018	Change
Underlying Net Profit Attributable to Shareholders	**3,796**	2,631	44%
Property Leasing	**2,849**	2,211	29%
Property Sales	**947**	420	125%
Underlying Earnings Per Share (HK$)	**$2.79**	$1.93	45%

FINANCIAL POSITION

	At December 31		
	2019	2018	Change
Shareholders' Equity	**91,294**	86,447	6%
Net Assets	**158,327**	150,736	5%
Net Debt	**27,453**	18,142	51%
Financial Ratio			
Net Debt to Equity Ratio	**17.3%**	12.0%	5.3pts
Debt to Equity Ratio	**19.7%**	20.3%	-0.6pt
Net Assets Attributable to Shareholders Per Share (HK$)	**$67.0**	$63.5	6%

REVIEW OF OPERATIONS

CONSOLIDATED RESULTS

For the financial year ended December 31, 2019, the total revenue of Hang Lung Group Limited (the Company) and its subsidiaries (the Group) declined 6% to HK$9,435 million owing to a 76% drop of property sales income to HK$296 million. 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 4% year-on-year, in spite of a 4.3% Renminbi (RMB) depreciation against Hong Kong Dollar. Total operating profit decreased 5% to HK$6,898 million in the reporting period.

Net profit attributable to shareholders increased 29% to HK$6,816 million after taking into account the revaluation gain on investment properties. Earnings per share increased correspondingly to HK$5.01. Excluding the property revaluation gain and all related effects, underlying net profit attributable to shareholders increased 44% to HK$3,796 million while underlying earnings per share increased similarly to HK$2.79.

Revenue and Operating Profit

	Revenue			Operating Profit		
	2019	2018	Change	**2019**	2018	Change
	HK$ Million	HK$ Million		**HK$ Million**	HK$ Million	
Property Leasing	**9,139**	8,784	4%	**6,736**	6,484	4%
Mainland China	**4,975**	4,686	6%	**3,226**	3,034	6%
Hong Kong	**4,164**	4,098	2%	**3,510**	3,450	2%
Property Sales	**296**	1,231	-76%	**162**	765	-79%
Total	**9,435**	10,015	-6%	**6,898**	7,249	-5%

DIVIDEND

The Board of Directors has resolved to declare a special dividend of HK26 cents per share for 2019 (2018: Nil), taking into account the gain on disposal of certain non-core properties in Hong Kong by the Company in 2019. The Board of Directors has also recommended a final dividend of HK63 cents per share for 2019 (2018: HK61 cents). Both the special dividend and final dividend will be paid by cash on May 20, 2020 to shareholders whose names appeared on the register of members on May 7, 2020.

Therefore the full year dividends for 2019 amounted to HK108 cents per share (2018: HK80 cents), being:

1. interim dividend of HK19 cents per share (2018: HK19 cents);
2. special dividend of HK26 cents per share (2018: Nil); and
3. final dividend of HK63 cents per share (2018: HK61 cents).

PROPERTY LEASING

Against the backdrop of the US-China trade dispute and the social unrest in Hong Kong, total property leasing revenue grew 4% to HK$9,139 million, of which 54% was attributable to Mainland operations. Our mainland leasing properties achieved a revenue growth of 11% against last year in RMB terms. The performance of our Hong Kong leasing portfolio was over-shadowed by the ongoing social unrest and recorded a 2% growth in revenue.

Even before the social unrest began in June 2019, the market sentiment of Hong Kong had been soft with the retail market recording negative growth since February of the year. With a drastic drop in tourist arrivals since the third quarter, the retail market shrank 23.6% year-on-year in November 2019. Entering the second half of 2019, retail sales lost momentum, especially in popular tourist districts such as Causeway Bay and Mongkok. Inevitably, the rental performance of Hong Kong portfolio was adversely affected.

Across the border, GDP growth in mainland China for the first three quarters of 2019 was 6.2%, while total retail sales advanced 8.2%. Domestic consumption is expected to rise with supportive government measures and a weaker RMB relative to 2018, resulting in shift of spending from abroad to domestic market. Robust growth in the sale of luxury goods in mainland China might partly due to diversion of sales from Hong Kong as the social situation dampened visitors from mainland China.

Customer Engagement

We put our customer-centric strategy at the very heart of our operations 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 enjoy an array of personalized services and invitations to exclusive events which have been instrumental in enhancing customer loyalty and our relationships with customers and tenants. In addition, we continued to leverage technology to enhance customer experience by launching car-finding and paperless car park payment system during the reporting year. SmartPOS, our integrated point-of-sale system which was fully rolled out across Mainland malls in 2019, enables mobile payments and allows seamless HOUSE 66 reward points registration and targeted marketing promotion.

Constantly measuring customer satisfaction is instrumental in improving customer experience. Ongoing online customer surveys and referencing 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

Our leasing properties in mainland China recorded strong performance in the year. Total revenue of the entire portfolio grew 11% to RMB4,382 million. Various new leasing properties commenced business in the third quarter of 2019, 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. Excluding these new properties, total revenue grew 9% year-on-year. After taking into account ramp-up losses of these new properties, operating profit increased 11% 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 15% 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 7% year-on-year, with the second half year achieving a 11% increase.

The robust revenue advancement at our eight existing malls and the fresh income stream from the new mall opened in August 2019 in Kunming fuelled the overall revenue growth of our Mainland portfolio. Altogether, revenue from our Mainland malls was up 14% to RMB3,129 million. In Shanghai, revenue from retail properties rose 11% year-on-year, with strong revenue and retail sales growth of 14% at Plaza 66 and moderate growth of 6% at Grand Gateway 66 due to temporary rental interruption resulting from renovation. Outside of Shanghai, the overall revenue growth of 14% was contributed by our existing malls that reported positive growth.

Our office portfolio in mainland China collected 3% growth in revenue for a total of RMB1,086 million in 2019 as compared to the previous year. The office towers at Shanghai Plaza 66 and Grand Gateway 66 together recorded a stable growth of 2%, amid keen competition and new office supply in Shanghai. Revenue from all office towers accounted for 25% of our total Mainland leasing revenue.

Mainland China Property Leasing Portfolio

City and Name of Property	**Revenue** (RMB Million)			**Occupancy Rate***	
	2019	2018	Change	Mall	Office
Shanghai Plaza 66	**1,696**	1,554	9%	99%	93%
Shanghai Grand Gateway 66	**1,232**	1,176	5%	91%	96%
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	**4,382**	3,950	11%		
Total in HK$ Million equivalent	***4,975***	*4,686*	*6%*		

* 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 robust growth at 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.

The Plaza 66 offices recorded a 1% revenue growth to RMB630 million in the face of new supply of Grade A offices in nearby areas. The occupancy rate fell two points to 93% at the end of 2019.

- *Shanghai Grand Gateway 66*

Total revenue at Grand Gateway 66 increased 5% year-on-year to RMB1,232 million, mainly driven by good performance at the mall.

Benefited largely from the full year effect of the re-opening of the North Building since September 2018 and its basement in June 2019, the Grand Gateway 66 mall achieved a revenue growth of 6% to RMB853 million. Comprising a mix of lifestyle brands and a refurbished cinema, the North Building has become a popular hub for young, affluent customers. Greater variety in food and beverage offerings has also been a factor in successful positioning. The second phase of the renovation covering the bulk of the South Building and its basement is on schedule. The newly renovated basement was energized by a new cosmetics zone housing top global brands and fast fashion retailers. In December 2019, several luxury flagship stores at the main atrium of the South Building commenced business. The entire South Building renovation is scheduled to be completed in the third quarter of 2020.

Revenue from the office tower at Grand Gateway 66 rose 2% year-on-year to RMB241 million with the occupancy rate advancing to 96%. Competitive position of the office tower was enhanced after the completion of renovation works at the mall's North Building in 2018, attracting more quality tenants such as multinational corporations and large domestic enterprises.

Income from residential and serviced apartments at Grand Gateway 66 grew 1% year-on-year. The occupancy rate was satisfactory at 88%.

- *Shenyang Palace 66*

Driven by higher occupancy rate and growth in sales rent, revenue from the Palace 66 mall surged 20% year-on-year to RMB194 million. The mall's successful positioning as the leading contemporary lifestyle mall in the Zhongjie district and Shenyang city boosted retail sales by 20%. In the second quarter, the revamped kids' zone on the third floor was opened, further enhancing the tenant mix and increasing family footfall. International sports brands and popular lifestyle fashion brands recorded remarkable sales performance during the reporting year. The occupancy rate rose seven points to 95%. In December 2019, HOUSE 66 was also launched at Palace 66.

- *Shenyang Forum 66*

Benefiting from the opening of the Conrad Shenyang and the revenue growth of the office tower, total revenue at Forum 66 increased 19% year-on-year to RMB257 million.

Amid strong competition in the luxury retail sector of the local market, revenue and retail sales from the Forum 66 mall edged up 3% and 6% respectively. Some international brands made their debuts into the Shenyang market with pop-up stores on the first floor of the mall. The occupancy rate rose one point to 94%, as a result of introducing new quality food and beverage tenants and shops targeting families and children.

The office tower at Forum 66 recorded a revenue growth of 8% to RMB127 million, with the first full-year income reported for the six floors of high-zone office commencing leasing in the second half of 2018. The year-end occupancy rate slipped one point to 87% amid plentiful supply of new offices in the market.

Conrad Shenyang, the 315-room five-star hotel residing on the top 19 floors of the office tower, commenced operations in September 2019. In its first four months of operations, the hotel contributed RMB29 million in revenue. Being the first hotel in our mainland China portfolio, Conrad Shenyang is positioned at 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 further reinforce Forum 66's positioning as an upscale shopping destination and prestigious address for businesses.

- *Jinan Parc 66*

Revenue at the Parc 66 mall increased 10% to RMB322 million, a result of favorable rental reversions and the uplift of the occupancy rate by two points to 98%. Retail sales rose 6%. With the tenant profile upgrade introducing a good brand mix on the first floor as well as new contemporary luxury brands, the Starbucks Reserve and Heytea flagship stores, the mall achieved improvement in both unit rents and sales. The upper floors were also upgraded with specific themes such as a sports zone on the fourth floor and new food and beverage options on the top floor.

Since its launch in December 2018, HOUSE 66 at Parc 66 has been well received. Through tenant collaborations offering exclusive promotions and events to members, tenant sales as well as turnover rents were boosted.

- *Wuxi Center 66*

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

Revenue of the mall recorded a 22% growth, which was attributable to the increase in sales rent as a result of tenant reshuffling, favorable rental reversions and higher occupancy. HOUSE 66 was launched in May 2019, and retail sales grew 21% with the occupancy rate advancing six points to 95%. Some luxury brands consolidated their shops elsewhere in Wuxi after opening their stores at Center 66. We anticipate more brands will migrate to Center 66 in the coming year.

In August 2019, Office Tower Two at Center 66, with a total floor area of 54,000 square meters, was opened. The combined income of the two office towers stayed flat at RMB83 million during the reporting period. Occupancy rate at Office Tower One rose four points to 90%.

- *Tianjin Riverside 66*

Income at the Riverside 66 mall increased 4% to RMB186 million. In August 2019, Starbucks opened a unique flagship store inside the iconic and historic Zhejiang Industrial Bank Building. The overall trade mix of the mall was further refined with more sportswear and lifestyle tenants. Part of the fourth floor was also converted into a themed zone to attract the younger generations. As a result, retail sales increased 5% while the occupancy rate fell one point to 89% during the process of tenant mix refinement.

- *Dalian Olympia 66*

Riding on the business growth among popular contemporary lifestyle and food and beverage tenants, the Olympia 66 mall delivered strong performance in 2019 with revenue and retail sales jumping 28% and 29%, respectively. The occupancy rate increased three points to 82%. Phase two of the mall is scheduled to open in stages during 2020 with more luxury labels joining the tenant portfolio.

- *Kunming Spring City 66*

Spring City 66, our first project in the southwestern region of mainland China, commenced operation in late August 2019. Comprising a mall and an office tower, the complex contributed RMB54 million in revenue since opening.

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

In the first four months of operations, the 153,000-square-meter office tower collected RMB5 million in rents, with 13% occupancy rate at the end of 2019.

Hong Kong

The performance of our Hong Kong leasing properties, like many businesses in Hong Kong, was adversely affected by the social unrest. Total revenue reported a mild growth of 2% to HK$4,164 million while both operating profit and rental margin were stable. Rental margin remained at 84%.

The significant decrease in tourist arrivals, transport disruption and shop closures had led to significant drop in the retail sales particularly in the jewelry and watches, beauty and cosmetics, and fashion wholesale sectors. Nevertheless, Peak Galleria was re-opened as scheduled after a two-year major asset enhancement initiative, making a positive contribution in both retail sales and rental revenue in 2019.

Hong Kong Property Leasing Portfolio

	Revenue (HK$ Million)			Occupancy Rate*
	2019	2018	Change	
Commercial	**2,392**	2,344	2%	98%
Offices and Industrial / Offices	**1,449**	1,429	1%	93%
Residential & Serviced Apartments	**323**	325	-1%	74%
Total	**4,164**	4,098	2%	

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

- *Commercial*

The Hong Kong commercial portfolio achieved a 2% revenue growth to HK$2,392 million. Total retail sales dropped 5% year-on-year, but 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 affected the most by the social unrest in Hong Kong. Revenue of the portfolio dropped 1% to HK$628 million year-on-year. Retail sales declined by 10% with occupancy rate dropping two points to 97%.

Our Mongkok portfolio was also severely hit by the social unrest. Revenue from **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 grew slightly by 3%. Retail sales decreased by 1%. Both properties remained fully let at the reporting date.

Kornhill Plaza in Hong Kong East and **Amoy Plaza in Kowloon East** are community malls and they were less affected by socio-political issues. Income of these two malls increased by 2% and 3%, respectively, as supported by the positive rental reversion of AEON STYLE in Kornhill Plaza, and upgrade of food and beverage tenants at Amoy Plaza, which also benefited 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 re-opened in the second half of 2019 after closure for major asset enhancement works since October 2018. Despite re-opening at a challenging time, the mall had secured a 91% occupancy rate at the end of 2019.

- *Offices*

Revenue from our Hong Kong office portfolio increased 1% to HK$1,449 million, mainly attributable to positive rental reversions. The overall occupancy rate slipped two points to 93%. Our offices in Central and Mongkok recorded growth in revenue of 6% and 5% respectively. Revenue from the Causeway Bay portfolio, which has substantial semi-retail element, dropped 4%. Hong Kong office rental accounted for 35% of total Hong Kong leasing turnover.

- *Residential and Serviced Apartments*

Revenue from the apartments dropped 1% to HK$323 million, mainly caused by lower occupancy at Kornhill Apartments.

PROPERTY SALES

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

We also disposed of certain non-core investment properties in Hong Kong. During the reporting period, a gain on disposal of HK$869 million was included in other income. The disposal of 111 car parking spaces at Laichikok Bay Garden, previously held as investment properties, resulted in a gain of HK$69 million recognized as part of the fair value gain of properties.

PROPERTY REVALUATION

As of December 31, 2019, the total value of our investment properties amounted to HK$168,218 million. The value of the Hong Kong portfolio and the mainland China portfolio was HK$66,579 million and HK$101,639 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as of December 31, 2019.

A total revaluation gain of HK$10,620 million (2018: HK$4,298 million) was recorded, representing a 6% growth in valuation compared to the value recorded at December 31, 2018.

Investment properties in mainland China recorded an overall gain of HK$10,545 million (2018: HK$305 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. Investment properties in Hong Kong had a revaluation loss of HK$391 million, which was 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 gain of HK$75 million (2018: HK$3,993 million).

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The total values of property development projects on investment properties and properties for sale were HK$27,602 million and HK$4,707 million, respectively. These represented 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

Wuhan **Heartland 66** will be the next Mainland project to commence operation. The entire complex, with a total gross floor area of 460,000 square meters, will house a premier mall, a Grade A office tower and serviced apartments for sale. Construction of the mall and office tower has been progressing as scheduled and is target 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** has a total gross floor area of 108,000 square meters, comprising luxury serviced apartments and a boutique hotel. The master layout plan of the project was approved in March 2019. Excavation works commenced in July 2019 and the project is scheduled for completion from 2023 onwards.

To complete the development of Kunming **Spring City 66**, a five-star hotel and luxury apartments will be built. The planning permit is expected to be obtained in the first quarter of 2020 and an estimated period of four years is required for the completion of construction.

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 begun since September 2019. The entire project comprises a retail podium with five Grade A office towers and a hotel. Piling works have 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 503,000 square meters, was submitted in November 2019. The development comprises offices, apartments and a retail podium. Construction works will commence in phases beginning from 2020.

Hong Kong

During the year, the Group commenced a joint venture project with its subsidiary, Hang Lung Properties Limited (Hang Lung Properties), to re-develop the properties at 226-240 Electric Road in North Point into a Grade A office tower. Total gross floor area of the project is approximately 105,000 square feet inclusive of a retail area on the lower floors. Construction is expected to be completed in 2022.

In April 2019, we have consolidated the entire ownership of the Amoycan Industrial Centre in Ngau Tau Kok through the Compulsory Sale for Redevelopment Order. With its proximity to Kowloon Bay station and the future East Kowloon Cultural Centre, it will be re-developed into residential units for sale with commercial areas on the lower floors. The total gross floor area is about 155,000 square feet. The project is targeted to be completed 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$3,660 million (December 31, 2018: HK$12,509 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$31,113 million (December 31, 2018: HK$30,651 million), of which about 37% 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	**7,204**	*23.1%*	3,653	*11.9%*
Floating rate RMB bank loans	**10,443**	*33.6%*	13,490	*44.0%*
Fixed rate bonds	**13,466**	*43.3%*	13,508	*44.1%*
Denominated in USD	***7,789***	*25.0%*	*7,832*	*25.6%*
Denominated in HKD	***4,563***	*14.7%*	*4,540*	*14.8%*
Denominated in RMB	***1,114***	*3.6%*	*1,136*	*3.7%*
Total borrowings	**31,113**	*100%*	30,651	*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 65% 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	**3,241**	*10.4%*	3,360	*11.0%*
After 1 but within 2 years	**7,632**	*24.5%*	4,057	*13.2%*
After 2 but within 5 years	**18,668**	*60.0%*	19,809	*64.6%*
Over 5 years	**1,572**	*5.1%*	3,425	*11.2%*
Total borrowings	**31,113**	*100%*	30,651	*100%*

As of December 31, 2019, total undrawn committed banking facilities amounted to HK$14,627 million (December 31, 2018: HK$20,984 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).

The undrawn committed banking facilities of the Company and its other subsidiaries, excluding the balances of Hang Lung Properties and its subsidiaries (HLP Group), amounted to HK$5,228 million (December 31, 2018: HK$4,760 million).

- *Gearing Ratios and Interest Cover*

At the end of 2019, the net debt balance amounted to HK$27,453 million (December 31, 2018: HK$18,142 million). Net debt to equity ratio was 17.3% (December 31, 2018: 12.0%) and debt to equity ratio was 19.7% (December 31, 2018: 20.3%).

Excluding the balances of HLP Group, the net debt balance of the Company and its other subsidiaries amounted to HK$1,086 million (December 31, 2018: HK$3,252 million). The corresponding net debt to shareholders' equity ratio (on an attributable net asset basis) was 1.2% (December 31, 2018: 3.8%).

For the year ended December 31, 2019, the total amount of gross borrowing costs increased by 10% to HK$1,573 million. The net amount charged to the statement of profit or loss for the year decreased by 88% to HK$144 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 66% to HK$160 million. The decrease was mainly due to a reduction in the 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$16 million (2018: net interest expense of HK$715 million). The average effective cost of borrowings for the year was lowered to 4.7% (2018: 4.8%).

Interest cover for 2019 was 5 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 of the following currencies:

	At December 31, 2019		At December 31, 2018	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**2,102**	*57.4%*	4,737	*37.9%*
RMB	**1,449**	*39.6%*	7,757	*62.0%*
USD	**109**	*3.0%*	15	*0.1%*
Total cash and bank balances	**3,660**	*100%*	12,509	*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 62% 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$2,130 million (2018: HK$3,864 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 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 the Group were not charged to any third parties as of December 31, 2019.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as of December 31, 2019.

OUTLOOK

Against the backdrop of uncertainties relating to the US-China trade dispute, RMB depreciation, and the socio-political conditions in Hong Kong, we maintained prudent but optimistic towards our property leasing business as a whole. The organic growth of our Mainland retail portfolio and contributions from new properties are expected to drive revenue growth.

The repatriation of luxury spending will continue to benefit our malls in mainland China. Our Mainland 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, Centre 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 to become increasingly customer focused.

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

Depending on market conditions, we will continue to sell down the residential inventory in Hong Kong and to unlock value from non-core properties.

On the property development side, the two re-development projects in Hong Kong have already commenced. On the Mainland, we intend to sell luxurious serviced apartments in our four mixed-use projects. Construction work for serviced apartments in our Wuhan project has started, while construction at our Wuxi, Kunming and Shenyang projects is set to begin in phases.

As the Group is celebrating its 60 years of establishment in 2020, we will continuously look for opportunities to expand its portfolio in Hong Kong and mainland China, ultimately delivering sustainable value to our shareholders and stakeholders.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2019 (AUDITED)

				For information purpose only	
	Note	**2019 HK$ Million**	2018 HK$ Million	**2019 RMB Million**	2018 RMB Million
Revenue	*2(a)*	**9,435**	10,015	**8,324**	8,426
Direct costs and operating expenses		**(2,537)**	(2,766)	**(2,242)**	(2,324)
		6,898	7,249	**6,082**	6,102
Other net income	*3*	**884**	100	**781**	83
Administrative expenses		**(623)**	(707)	**(549)**	(597)
Profit from operations before changes in fair value of properties		**7,159**	6,642	**6,314**	5,588
Net increase in fair value of properties	*2(b)*	**10,620**	4,298	**9,477**	3,639
Profit from operations after changes in fair value of properties		**17,779**	10,940	**15,791**	9,227
Interest income		**160**	465	**140**	390
Finance costs		**(144)**	(1,180)	**(128)**	(996)
Net interest income/(expense)	*4*	**16**	(715)	**12**	(606)
Share of profits of joint ventures		**183**	435	**161**	366
Profit before taxation	*2(b) & 5*	**17,978**	10,660	**15,964**	8,987
Taxation	*6(a)*	**(5,403)**	(1,364)	**(4,839)**	(1,145)
Profit for the year		**12,575**	9,296	**11,125**	7,842
Attributable to:					
Shareholders		**6,816**	5,285	**6,009**	4,459
Non-controlling interests		**5,759**	4,011	**5,116**	3,383
		12,575	9,296	**11,125**	7,842
Earnings per share	*8(a)*				
Basic		**HK$5.01**	HK$3.88	**RMB4.41**	RMB3.27
Diluted		**HK$5.01**	HK$3.88	**RMB4.41**	RMB3.27

恒隆集團 HANG LUNG GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019 (AUDITED)

				For information purpose only	
	Note	**2019 HK$ Million**	2018 HK$ Million	**2019 RMB Million**	2018 RMB Million
Profit for the year		**12,575**	9,296	**11,125**	7,842
Other comprehensive income	*6(b)*				
Items that are or may be reclassified subsequently to profit or loss:					
Movement in exchange reserve:					
Exchange difference arising from translation to presentation currency		**(2,150)**	(3,864)	**1,056**	2,873
Net investment hedge - net gain		**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		**(4)**	3	**(4)**	3
		(1,998)	(3,870)	**1,190**	2,868
Total comprehensive income for the year		**10,577**	5,426	**12,315**	10,710
Total comprehensive income attributable to:					
Shareholders		**5,704**	3,176	**6,752**	6,189
Non-controlling interests		**4,873**	2,250	**5,563**	4,521
		10,577	5,426	**12,315**	10,710

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2019 (AUDITED)

				For information purpose only	
	Note	**2019 HK$ Million**	2018 HK$ Million	**2019 RMB Million**	2018 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	*9*	**168,218**	144,572	**150,737**	126,818
Investment properties under development	*9*	**27,602**	31,186	**24,726**	27,325
Other property, plant and equipment		**231**	213	**207**	187
		196,051	175,971	**175,670**	154,330
Interest in joint ventures		**4,119**	4,040	**3,693**	3,548
Other assets		**1,445**	1,449	**1,295**	1,273
Deposits with banks		**-**	1,853	**-**	1,628
Deferred tax assets		**4**	3	**4**	3
		201,619	183,316	**180,662**	160,782
Current assets					
Cash and deposits with banks		**3,660**	10,656	**3,280**	9,350
Trade and other receivables	*10*	**2,298**	2,061	**2,059**	1,807
Properties for sale		**5,662**	2,463	**5,075**	2,163
Assets held for sale	*12*	**-**	101	**-**	89
		11,620	15,281	**10,414**	13,409
Current liabilities					
Bank loans and other borrowings		**3,241**	3,360	**2,903**	2,947
Trade and other payables	*11*	**8,752**	6,411	**7,842**	5,623
Lease liabilities		**23**	22	**21**	19
Current tax payable		**847**	581	**759**	509
Liabilities directly associated with assets held for sale	*12*	**-**	3	**-**	3
		12,863	10,377	**11,525**	9,101
Net current (liabilities)/assets		**(1,243)**	4,904	**(1,111)**	4,308
Total assets less current liabilities		**200,376**	188,220	**179,551**	165,090
Non-current liabilities					
Bank loans and other borrowings		**27,872**	27,291	**24,967**	23,946
Lease liabilities		**293**	298	**262**	261
Deferred tax liabilities		**13,884**	9,895	**12,437**	8,671
		42,049	37,484	**37,666**	32,878
NET ASSETS		**158,327**	150,736	**141,885**	132,212
Capital and reserves					
Share capital		**4,065**	4,065	**3,164**	3,164
Reserves		**87,229**	82,382	**78,659**	72,662
Shareholders' equity		**91,294**	86,447	**81,823**	75,826
Non-controlling interests		**67,033**	64,289	**60,062**	56,386
TOTAL EQUITY		**158,327**	150,736	**141,885**	132,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The financial information relating to the years ended December 31, 2019 and 2018 included in this announcement of annual results does not constitute the statutory annual consolidated financial statements of Hang Lung Group Limited (the "Company") and its subsidiaries (collectively the "Group") for those years but is derived from those consolidated financial statements in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622). The Company has delivered the consolidated financial statements for the year ended December 31, 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended December 31, 2019 in due course. The Company's auditor has reported on the consolidated financial statements for both years. The auditor's reports were unqualified and they did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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 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.

The significant accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2018, except for the changes summarized below.

1. Basis of preparation (Continued)

Impact of adoption of 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.

<u>As a lessee</u>
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.

<u>As a lessor</u>
HKFRS 16 does not substantially change how a lessor accounts for leases under HKAS 17.

<u>Disclosure</u>
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.

1. Basis of preparation (Continued)

Impact of adoption of HKFRS 16 (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%.

1. Basis of preparation (Continued)

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.

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 on the same basis as 2018 as if the presentation currency is Renminbi.

2. 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 carparks, 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, deferred tax 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:

	2019	2018
	HK$ Million	HK$ Million
Under the scope of HKFRS 16 (2018: HKAS 17), *Leases:*		
Rental income	**8,144**	7,803
Under the scope of HKFRS 15, *Revenue from contracts with customers*:		
Sales of completed properties	**296**	1,231
Building management fees and other income from property leasing	**995**	981
	1,291	2,212
	9,435	10,015

2. Revenue and segment information (Continued)

(b) Revenue and results by segments

	Revenue		Profit before taxation	
	2019	2018	**2019**	2018
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Segment				
Property leasing				
- Mainland China	**4,975**	4,686	**3,226**	3,034
- Hong Kong	**4,164**	4,098	**3,510**	3,450
	9,139	8,784	**6,736**	6,484
Property sales				
- Mainland China	**-**	-	**(2)**	-
- Hong Kong	**296**	1,231	**164**	765
	296	1,231	**162**	765
Segment total	**9,435**	10,015	**6,898**	7,249
Other net income			**884**	100
Administrative expenses			**(623)**	(707)
Profit from operations before changes in fair value of properties			**7,159**	6,642
Net increase/(decrease) in fair value of properties			**10,620**	4,298
- property leasing in Hong Kong (Note)			**(391)**	3,993
- property leasing in mainland China (Note)			**10,545**	305
- properties for sale in Hong Kong upon transfer to investment properties			**466**	-
Net interest income/(expense)			**16**	(715)
- interest income			**160**	465
- finance costs			**(144)**	(1,180)
Share of profits of joint ventures			**183**	435
Profit before taxation			**17,978**	10,660

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 1% to 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.

2. Revenue and segment information (Continued)

(c) Total assets by segments

	Total assets	
	2019	2018
	HK$ Million	HK$ Million
Segment		
Property leasing		
- Mainland China	**131,104**	109,121
- Hong Kong	**67,243**	68,910
	198,347	178,031
Property sales		
- Mainland China	**1,608**	-
- Hong Kong	**4,056**	2,464
	5,664	2,464
Segment total	**204,011**	180,495
Interest in joint ventures	**4,119**	4,040
Other assets	**1,445**	1,449
Deferred tax assets	**4**	3
Cash and deposits with banks	**3,660**	12,509
Assets held for sale	**-**	101
Total assets	**213,239**	198,597

3. Other net income

	2019	2018
	HK$ Million	HK$ Million
Gain on disposal of a subsidiary	**869**	-
Dividend income from equity investments	**5**	4
Ineffectiveness on cash flow hedges	**1**	(1)
Gain on disposal of investment properties	**-**	71
Gain on disposal of assets held for sale	**-**	27
Others	**9**	(1)
	884	100

4. Net interest income/(expense)

	2019 HK$ Million	2018 HK$ Million
Interest income on bank deposits	**160**	465
Interest expense on bank loans and other borrowings	**1,483**	1,350
Interest on lease liabilities	**16**	16
Other borrowing costs	**74**	65
Total borrowing costs	**1,573**	1,431
Less: Borrowing costs capitalized	**(1,429)**	(251)
Finance costs	**144**	1,180
Net interest income/(expense)	**16**	(715)

5. Profit before taxation

	2019 HK$ Million	2018 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**121**	374
Staff costs (Note)	**1,391**	1,399
Depreciation	**50**	46

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$1,624 million (2018: HK$1,658 million).

6. Taxation

(a) 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%).

	2019	2018
	HK$ Million	HK$ Million
Current tax		
Hong Kong Profits Tax	**476**	493
Under-provision in prior years	**1**	8
	477	501
Mainland China Income Tax	**728**	698
Total current tax	**1,205**	1,199
Deferred tax		
Changes in fair value of properties	**4,082**	63
Other origination and reversal of temporary differences	**116**	102
Total deferred tax	**4,198**	165
Total income tax expense	**5,403**	1,364

(b) There was no tax effect relating to the components of other comprehensive income for the years ended December 31, 2019 and 2018.

7. Dividends

(a) Dividends attributable to the year

	2019	2018
	HK$ Million	HK$ Million
Interim dividend declared and paid of HK19 cents (2018: HK19 cents) per share	**258**	258
Special dividend of HK26 cents (2018: Nil) per share declared after the end of the reporting period	**354**	-
Final dividend of HK63 cents (2018: HK61 cents) per share proposed after the end of the reporting period	**858**	831
	1,470	1,089

The dividends declared or proposed after the end of the reporting period have not been recognized as a liability at the end of the reporting period.

(b) The final dividend of HK$831 million (calculated based on HK61 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$831 million).

8. Earnings per share

(a) The calculation of basic and diluted earnings per share is based on the following data:

	2019	2018
	HK$ Million	HK$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	**6,816**	5,285

8. Earnings per share (Continued)

(a) (Continued)

	Number of shares	
	2019	2018
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	**1,361,618,242**	1,361,618,242

Note: Diluted earnings per share were the same as the basic earnings per share for the years as there were no dilutive potential ordinary shares in existence during both 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:

	2019	2018
	HK$ Million	HK$ Million
Net profit attributable to shareholders	**6,816**	5,285
Effect of changes in fair value of properties	**(10,620)**	(4,298)
Effect of corresponding income tax	**4,158**	63
Effect of changes in fair value of investment properties of joint ventures	**(44)**	(289)
	(6,506)	(4,524)
Non-controlling interests	**3,486**	1,870
	(3,020)	(2,654)
Underlying net profit attributable to shareholders	**3,796**	2,631

The earnings per share based on underlying net profit attributable to shareholders were:

	2019	2018
Basic	**HK$2.79**	HK$1.93
Diluted	**HK$2.79**	HK$1.93

9. Investment properties and investment properties under development

(a) Addition

During the year, total additions to investment properties and investment properties under development amounted to HK$15,678 million (2018: HK$12,187 million). 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.

(b) Valuation

The investment properties and investment properties under development of the Group 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.

10. Trade and other receivables

(a) Included in trade and other receivables are trade receivables (based on the due date) with the following aging analysis:

	2019 **HK$ Million**	2018 HK$ Million
Not past due or less than 1 month past due	**24**	14
1 - 3 months past due	**27**	5
More than 3 months past due	**2**	2
	53	21

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.

(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).

11. Trade and other payables

Included in trade and other payables are trade creditors with the following aging analysis:

	2019	2018
	HK$ Million	HK$ Million
Due within 3 months	**4,125**	1,992
Due after 3 months	**838**	866
	4,963	2,858

12. Assets held for sale

	2018
	HK$ Million
Investment properties	101
Deferred tax liabilities	3

The balance at December 31, 2018 represented the following:

(a) a residential unit and several car parking spaces at Garden Terrace in Hong Kong which were disposed of in April 2019; and

(b) 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.

OTHER INFORMATION

Employees

As of December 31, 2019, the number of employees was 4,732 (comprising 1,181 Hong Kong employees and 3,551 mainland China employees). The total employee costs for the year ended December 31, 2019, amounted to HK$1,624 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option schemes for the employees and provides professional and high-quality training for all employees.

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.

Compliance with Corporate Governance Code

During the year, the Company complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Audit Committee

The annual results for the year ended December 31, 2019, have been reviewed by the Audit Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, KPMG, and it has issued an unmodified opinion.

Book Close Dates

For ascertaining shareholders' right to attend and vote at the Annual General Meeting (AGM)

Book close dates (both days inclusive)	April 24 to 29, 2020
Latest time to lodge transfers	4:30 pm on April 23, 2020
Record date	April 29, 2020
AGM	April 29, 2020

For ascertaining shareholders' entitlement to the declared special dividend and the proposed final dividend

Book close date	May 7, 2020
Latest time to lodge transfers	4:30 pm on May 6, 2020
Record date	May 7, 2020
Special dividend and final dividend payment date	May 20, 2020

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, January 21, 2020

As of the date of this announcement, the board of directors of the Company comprises the following directors:
Executive Directors: Mr. Ronnie C. CHAN, Mr. Weber W.P. LO, Mr. H.C. HO and Mr. Adriel W. CHAN
Non-Executive Directors: Mr. Gerald L. CHAN, Mr. George K.K. CHANG and Mr. Roy Y.C. CHEN
Independent Non-Executive Directors: Mr. Simon S.O. IP, Prof. P.W. LIU, Prof. L.C. TSUI and Mr. Martin C.K. LIAO

GLOSSARY

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

$$\text{Basic earnings per share} = \frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Debt to equity} = \frac{\text{Total borrowings}}{\text{Total equity}}$$

$$\text{Net assets attributable to shareholders per share} = \frac{\text{Net assets attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Net debt to equity} = \frac{\text{Net debt}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Profit from operations before changes in fair value of properties}}{\text{Finance costs before capitalization less interest income}}$$