PRICING SUPPLEMENT

Pricing Supplement dated 19 May 2020

The Hongkong Land Finance (Cayman Islands) Company Limited
(*incorporated with limited liability in the Cayman Islands*)

Issue of U.S.$600,000,000 2.875 per cent. Notes due 2030

Unconditionally and irrevocably guaranteed by **The Hongkong Land Company, Limited**

under the U.S.$5,000,000,000 Guaranteed Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Section 309B(1) Notification — In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 15 August 2019 (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and is supplemental to the Offering Circular, and must be read in conjunction with such Offering Circular.

1	(i)	Issuer:	The Hongkong Land Finance (Cayman Islands) Company Limited
	(ii)	Guarantor:	The Hongkong Land Company, Limited
2	(i)	Series Number:	004
	(ii)	Tranche Number: *(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).*	01
3	Specified Currency or Currencies:		United States dollars (U.S.$)
4	Aggregate Nominal Amount:		
	(i)	Series:	U.S.$600,000,000
	(ii)	Tranche:	U.S.$600,000,000
5	(i)	Issue Price:	99.466 per cent., of the Aggregate Nominal Amount
	(ii)	Net Proceeds:	Approximately U.S.$595,000,000

6	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
7	(i)	Issue Date:	27 May 2020
	(ii)	Interest Commencement Date:	27 May 2020
8	Maturity Date:		27 May 2030
9	Interest Basis:		2.875 per cent. Fixed Rate (further particulars specified below)
10	Redemption/Payment Basis:		Redemption at par
11	Change of Interest or Redemption/Payment Basis:		Not Applicable
12	Put/Call Options:		Issuer Call (further particulars specified below)
13	Listing and admission to trading:		Singapore Exchange Securities Trading Limited
14	Method of distribution:		Syndicated

PROVISIONS RELATING TO DISTRIBUTION PAYABLE

15	**Fixed Rate Note Provisions**		Applicable
	(i)	Rate of Interest:	2.875 per cent. per annum payable semi-annually in arrear
	(ii)	Interest Payment Date(s):	27 May and 27 November in each year
	(iii)	Fixed Coupon Amount:	U.S.$14.375 per Calculation Amount
	(iv)	Broken Amount(s):	Not Applicable
	(v)	Day Count Fraction:	30/360
	(vi)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
16	**Floating Rate Note Provisions**		Not Applicable
17	**Zero Coupon Note Provisions**		Not Applicable
18	**Dual Currency Note Provisions**		Not Applicable

PROVISIONS RELATING TO REDEMPTION

19	Call Option		Applicable

	(i)	Optional Redemption Date(s):	27 February 2030
	(i)	Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s):	U.S.$1,000 per Calculation Amount
	(ii)	If redeemable in part:	Not Applicable
	(iii)	Notice period:	Not less than 15 nor more than 30 days
20	**Put Option**		Not Applicable
21	**Final Redemption Amount of each Note**		U.S.$1,000 per Calculation Amount
22	Early Redemption Amount Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):		U.S.$1,000

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23	Form of Notes:	Registered Notes Unrestricted Global Certificate exchangeable for definitive Unrestricted Notes in the limited circumstances specified in the Unrestricted Global Certificate
24	Financial Centre(s) or other special provisions relating to Payment Dates:	Not Applicable
25	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
26	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Relevant Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
27	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
28	Consolidation provisions:	Not Applicable

29	Other terms or special conditions:		Not Applicable

DISTRIBUTION

30	(i)	If syndicated, names of Managers:	Bank of China (Hong Kong) Limited DBS Bank Ltd. The Hongkong and Shanghai Banking Corporation Limited Mizuho Securities Asia Limited MUFG Securities Asia Limited
	(ii)	Stabilising Manager (if any):	Any of the Managers
31	If non-syndicated, name of Dealer:		Not Applicable
32	U.S. selling restrictions:		Reg. S Category 2 TEFRA Not Applicable
33	Additional selling restrictions:		Not Applicable
34	Prohibition of Sales to EEA and United Kingdom Retail Investors:		Not Applicable

OPERATIONAL INFORMATION

35	ISIN Code:	XS2143035587
36	Common Code:	214303558
37	Legal Entity Identifier:	254900OHTMO343QAXN81
38	CMU Instrument Number:	Not Applicable
39	Committee on the Uniform Security Identification Procedure ("CUSIP") number	Not Applicable
40	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg, DTC, CDP, or the CMU and the relevant identification number(s):	Not Applicable
41	Delivery:	Delivery against payment
42	Additional Paying Agent(s) (if any):	Not Applicable

GENERAL

43	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of ____, producing a sum of (for Notes not denominated in U.S. dollars):	Not Applicable
44	In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:	Not Applicable

45	In the case of Bearer Notes, specify the location of the office of the Issuing and Paying Agent if other than London:	Not Applicable
46	Ratings:	The Notes to be issued are expected to be rated: S&P: “A”; Moody’s: “(P)A2”; (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Singapore Exchange Securities Trading Limited of the Notes described herein pursuant to the U.S.$5,000,000,000 Guaranteed Medium Term Note Programme.

RESPONSIBILITY

The Issuer and the Guarantor accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of **The Hongkong Land Finance (Cayman Islands) Company Limited**:

By: ____________________________

Duly authorised

Signed on behalf of **The Hongkong Land Company, Limited**:

By: ____________________________

Duly authorised

Schedule 1

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Saved as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

RISK FACTORS

1. In the sub-section headed "*Risk Factors — Risks Relating to the Group and its Business*" appearing on page 58 of the Offering Circular, the following risk factor shall be added:

   "***The occurrence of a contagious disease in Hong Kong and globally could affect the Group's business, financial condition or results of operations***

   The outbreak of a contagious disease such as the Influenza A (H1N1-2009), human avian influenza, Severe Acute Respiratory Syndrome, Ebola, Middle East Respiratory Syndrome, the novel coronavirus COVID-19 and other events beyond the control of the Group, in Hong Kong and globally, together with any resulting restrictions on travel and/or imposition of quarantines, could have a negative impact on the economy and business activities in Hong Kong and globally and could thereby adversely impact the Group's business, financial condition and results of operations. There can be no assurance that any precautionary measures taken against infectious diseases would be effective.

   Continuation or escalation of the COVID-19 outbreak may have an adverse effect on the global economy and on the Group's business, financial condition or results of operations of the Group, including valuation of the Group's property assets. There can be no assurance that there will not be a significant outbreak of a highly contagious disease in Hong Kong or globally in the future, or the precautionary measures taken in response to such contagious diseases, would not disrupt the operations and business of the Group."

2. In the sub-section headed "*Risk Factors — Risks Relating to the Group and its Business*" appearing on page 57 of the Offering Circular, the following sentence in the risk factor "Effect of global credit markets on the economy" shall be deleted in its entirety:

   "There has been even greater uncertainty following the extension granted to the United Kingdom to leave the European Union and the possibility of a no-deal Brexit occurring should there be no agreement by the new deadline of 31 October 2019 or a further extension granted."

   and replaced by:

   "On 17 October 2019, the United Kingdom and the European Union agreed a withdrawal agreement under which the United Kingdom exited the European Union on 31 January 2020, with plans to sign a free trade agreement before the transition period for the United Kingdom's exit from the European Union ends on 31 December 2020. The United Kingdom's exit from the European Union could have a material adverse effect on global economic conditions and the stability of global financial markets. The long-term impact of the United Kingdom's decision to leave the European Union is not known and there is considerable uncertainty as to the impact of the referendum on the general economic conditions in the United Kingdom or its wider impact worldwide."

CAPITALISATION AND INDEBTEDNESS

3. The figures in the table of the section headed "*Capitalisation and Indebtedness of the Guarantor*" appearing on page 70 of the Offering Circular shall be supplemented by the corresponding figures as at 31 December 2019 set out in the audited consolidated financial statements of the Guarantor for the year ended 31 December 2019 appearing in Schedule 2 hereto. As at 11 May 2020, the Guarantor's long-term borrowings increased by HK$11,439 million as compared with

31 December 2019. This is mainly due to its loan drawdown for on-lending to a subsidiary of Hongkong Land Holdings Limited for their general corporate purposes.

RECENT DEVELOPMENTS

4. In the section headed "*Description of the Guarantor*" appearing on page 74 of the Offering Circular, the following should be added before the sub-section "*Description of the Guarantor — Capital Expenditure*".

   "RECENT DEVELOPMENTS

   Results for the Year Ended 31 December 2019

   The Group recorded an operating loss for the year ended 31 December 2019, mainly due to net loss arising from the revaluation of the Group's investment properties. The Group's underlying business performance for the year ended 31 December 2019 was in line with the year ended 31 December 2018. The audited consolidated financial statements of the Guarantor for the year ended 31 December 2019 are set out in Schedule 2 hereto."

Schedule 2

Consolidated Financial Statements of the Guarantor for the Year Ended 31 December 2019

THE HONGKONG LAND COMPANY, LIMITED
香港置地有限公司

(incorporated in Hong Kong with limited liability)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2019

8TH FLOOR, ONE EXCHANGE SQUARE,
HONG KONG

THE HONGKONG LAND COMPANY, LIMITED
香港置地有限公司
Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2019.

Principal activities
The principal activities of the Company and the Group are property investment and development.

Results and appropriations
The results of the Group for the year ended 31st December 2019 and the state of the Group's and the Company's affairs at that date are set out in the financial statements on pages 3 to 35.

Interim dividends of HK$3,779 million (2018: HK$12,817 million) were paid during the year. The Directors do not recommend the payment of a final dividend and propose that the revenue reserves at 31st December 2019 be carried forward.

Donations
The total donations made by the Group for charitable or similar purposes in 2019 amounted to HK$2 million (2018: HK$3 million).

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

Mr B W Keswick - Chairman
Mr R M J Chow
Mr K Y H Foo
Mr S C Dixon
Mr Y K Pang
Mr R C M Wong
Mr R Y C Wong

It was noted that in accordance with the Company's articles of association, no Director is required to retire at the coming Annual General Meeting.

Directors of the Company's subsidiaries
The names of Directors who have served on the Boards of the subsidiaries of the Company during the year end and up to the date of this report are set out below:

Mr R M J Chow
Mr K Y H Foo
Mr S B P H Ho
Mr R Y C Wong
Mr S B C Lim
Mr S C Dixon
Mr R C M Wong
Ms J L Lopes
Mr P S B Ng
Mrs C S Ng
Mr T W Jan
Mr D C Le F Edwards
Mr R L Garman
Mr P A Barnes
Ms J Young

Directors' interests
Save for contracts amongst group companies and the contracts mentioned below, no other transactions, arrangements and contracts of significance to which the Company's subsidiaries, fellow subsidiaries or its holding companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Permitted indemnity provision
During the financial year and up to the date of this Report, the Company has in force indemnity provisions as permitted under the Companies Ordinance for the benefit of the Directors of the Company. The permitted indemnity provisions are provided for in the Company's Articles of Association.

Management contracts
During the year, there existed arrangements whereby Hongkong Land Limited provided general management services, management consultancy services, administrative and secretarial services and leasing and collection services to the Group in return for a management services fee and a leasing and collection fee. Hongkong Land (Property Management) Limited provided management services to the Group in return for a management fee. Mr K Y H Foo was Director of Hongkong Land (Property Management) Limited and all the Directors of the Company were Directors of Hongkong Land Limited.

Property leasing and service contracts
A lease agreement had been signed with HKL (Landmark Hotel) Limited whereby a subsidiary of the Company rented properties to HKL (Landmark Hotel) Limited. Mr R M J Chow and Mr R C M Wong were Directors of HKL (Landmark Hotel) Limited.

Various lease agreements had been signed with the subsidiaries of Jardine Matheson Holdings Limited whereby the subsidiaries of the Company rented properties to the subsidiaries of Jardine Matheson Holdings Limited. Mr B W Keswick and Mr Y K Pang were Directors of Jardine Matheson Holdings Limited.

Various property service agreements had been signed with the subsidiaries of Jardine Matheson Holdings Limited whereby the subsidiaries of Jardine Matheson Holdings Limited provided property services to the subsidiaries of the Company. Mr B W Keswick and Mr Y K Pang were Directors of Jardine Matheson Holdings Limited.

Business review
No business review is presented for 2019 as the Group has been able to claim an exemption under section 388(3) of the Companies Ordinance Cap. 622 since it is a wholly owned subsidiary of Hongkong Land China Holdings Limited.

Auditor
The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Hong Kong,

THE HONGKONG LAND COMPANY, LIMITED

香港置地有限公司

Consolidated Profit and Loss Account

For the year ended 31st December 2019

		2019			2018		
	Note	**Underlying business performance HK$m**	**Non-trading items HK$m**	**Total HK$m**	Underlying business performance HK$m	Non-trading items HK$m	Total HK$m
Revenue	*3*	**8,061**	**-**	**8,061**	7,962	-	7,962
Net operating costs	*4*	**(1,962)**	**-**	**(1,962)**	(1,912)	-	(1,912)
		6,099	**-**	**6,099**	6,050	-	6,050
Change in fair value of investment properties	*9*	**-**	**(7,010)**	**(7,010)**	-	9,315	9,315
Operating (loss)/profit		**6,099**	**(7,010)**	**(911)**	6,050	9,315	15,365
Net financing charges	*5*						
- financing charges		**(1,053)**	**-**	**(1,053)**	(1,003)	-	(1,003)
- financing income		**303**	**-**	**303**	322	-	322
		(750)	**-**	**(750)**	(681)	-	(681)
Share of results of joint ventures	*6*						
- before change in fair value of investment properties		**7**	**-**	**7**	4	-	4
- change in fair value of investment properties		**-**	**(11)**	**(11)**	-	24	24
		7	**(11)**	**(4)**	4	24	28
(Loss)/profit before tax		**5,356**	**(7,021)**	**(1,665)**	5,373	9,339	14,712
Tax	*7*	**(744)**	**-**	**(744)**	(805)	-	(805)
(Loss)/profit for the year		**4,612**	**(7,021)**	**(2,409)**	4,568	9,339	13,907

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2019

	2019 HK$m	2018 HK$m
(Loss)/profit for the year	**(2,409)**	13,907
Other comprehensive income/(expenses)		
Items that may be reclassified subsequently to profit and loss:		
Cash flow hedges		
- net gain / (loss) arising during the year	**227**	(11)
- transfer to profit and loss	**(22)**	(22)
	205	(33)
- deferred tax	**(33)**	5
Other comprehensive income/(expenses) for the year, net of tax	**172**	(28)
Total comprehensive (expense)/income for the year	**(2,237)**	13,879

THE HONGKONG LAND COMPANY, LIMITED

香港置地有限公司

Consolidated Balance Sheet

At 31st December 2019

	Note	2019 HK$m	2018 HK$m
Net operating assets			
Tangible fixed assets	*8*	**254**	257
Investment properties	*9*	**245,008**	250,986
Joint ventures	*10*	**1,536**	586
Non-current debtors	*11*	**238**	63
Non-current inter-group balances	*12*	**4,140**	4,256
Deferred tax assets	*13*	**3**	15
Non-current assets		**251,179**	256,163
Properties for sale	*14*	**18**	18
Current debtors	*11*	**745**	737
Current inter-group balances	*12*	**3,206**	4,889
Current tax assets		**1**	-
Bank balances	*15*	**943**	117
Current assets		**4,913**	5,761
Current creditors	*16*	**(3,967)**	(3,531)
Current inter-group balances	*12*	**(2,530)**	(4,030)
Current borrowings	*17*	**(1,037)**	(236)
Current tax liabilities		**(757)**	(217)
Current liabilities		**(8,291)**	(8,014)
Net current liabilities		**(3,378)**	(2,253)
Long-term borrowings	*17*	**(25,113)**	(25,151)
Deferred tax liabilities	*13*	**(696)**	(649)
Non-current creditors	*16*	**(28)**	(130)
		221,964	227,980
Total equity			
Share capital (2,586m shares issued and fully paid)	*18*	**2,147**	2,147
Revenue and other reserves	*19*	**219,817**	225,833
Shareholders' funds		**221,964**	227,980

Approved by the Board of Directors on

THE HONGKONG LAND COMPANY, LIMITED

香港置地有限公司

Consolidated Statement of Changes in Equity

For the year ended 31st December 2019

	Note	Share capital HK$m	Other capital reserves HK$m	Revenue reserves HK$m	Hedging reserves HK$m	Total equity HK$m
2019						
At 1st January		**2,147**	**11**	**225,882**	**(60)**	**227,980**
Total comprehensive expense		**-**	**-**	**(2,409)**	**172**	**(2,237)**
Dividends paid	*20*	**-**	**-**	**(3,779)**	**-**	**(3,779)**
At 31st December		**2,147**	**11**	**219,694**	**112**	**221,964**
2018						
At 1st January		2,147	11	224,792	(32)	226,918
Total comprehensive income		-	-	13,907	(28)	13,879
Dividends paid	*20*	-	-	(12,817)	-	(12,817)
At 31st December		2,147	11	225,882	(60)	227,980

THE HONGKONG LAND COMPANY, LIMITED

香港置地有限公司

Consolidated Cash Flow Statement

For the year ended 31st December 2019

	Note	**2019 HK$m**	2018 HK$m
Operating activities			
Operating (loss) / profit		**(911)**	15,365
Depreciation	*8*	**31**	11
Change in fair value of investment properties	*9*	**7,010**	(9,315)
Increase in debtors		**(24)**	(30)
Increase in creditors		**465**	468
Decrease in amounts due from inter-group companies		**1,507**	7,247
(Decrease)/increase in amounts due to inter-group companies		**(1,500)**	308
Interest received		**7**	3
Interest and other financing charges paid		**(1,032)**	(991)
Tax paid		**(179)**	(791)
Dividends received from joint ventures		**5**	4
Cash flows from operating activities		**5,379**	12,279
Investing activities			
Major renovations expenditure		**(818)**	(675)
Developments capital expenditure		**(1)**	(2)
Loan to joint ventures		**(959)**	(1)
Repayment from inter-group companies		**292**	292
Cash flows from investing activities		**(1,486)**	(386)
Financing activities			
Drawdown of borrowings		**1,899**	13,136
Repayment of borrowings		**(1,188)**	(12,379)
Dividends paid		**(3,779)**	(12,817)
Cash flows from financing activities		**(3,068)**	(12,060)
Net increase / (decrease) in cash and cash equivalents		**825**	(167)
Cash and cash equivalents at 1st January		**81**	248
Cash and cash equivalents at 31st December	*21*	**906**	81

1 Basis of preparation

The principal activities of the Company and the Group are property investment and development.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention except as disclosed in the accounting policies below.

Details of the Group's principal accounting policies are included in Note 29.

The Group has adopted HKFRS 16 'Leases' from 1st January 2019:

HKFRS 16 'Leases'
The standard replaces HKAS 17 'Leases' and related interpretations, and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a lease liability and a corresponding right-of-use asset have to be recognised on the balance sheet for almost all leases by the lessees. The accounting for lessors does not change significantly.

HKFRS 16 does not have a significant effect on the Group's profit and financial position.

There are no other amendments or interpretations, which are effective in 2019 and relevant to the Group's operations, that have a significant effect on the Group's accounting policies.

The Group has elected to early adopt the 'Interest Rate Benchmark Reform: Amendments to HKFRS 9, HKAS 39 and HKFRS 7' (effective 1st January 2020) in relation to hedge accounting for the Group's annual reporting period commencing 1st January 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively with respect to hedging relationships that existed at the start of the reporting period or were designated thereafter. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships which are directly affected by the uncertainty arising from the reforms and replacement of the existing benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBOR reform'). The forthcoming IBOR reforms may take effect at different times and may have a different impact on hedged items (the fixed and floating rate borrowings) and the hedging instruments (the interest rate swaps and cross currency swaps used to hedge the borrowings). The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. The reliefs under the amendments will end when the uncertainty arising from IBOR reform is no longer present; or the hedging relationship is discontinued.

The outstanding interest rate swaps and cross currency swaps of an aggregate notional principal and contract amount of HK$12,144 million are impacted by the IBOR reform, 96% of the outstanding contracts will mature after 2021. Early adoption of these amendments has no impact on the Group's consolidated financial statements for 2019.

Apart from the above, the Group has not early adopted any standard, interpretation or amendments that has been issued but not yet effective.

The principal operating subsidiaries and joint ventures have different functional currencies in line with the economic environments of the locations in which they operate. The functional currency of the Company is Hong Kong dollars. The consolidated financial statements are presented in Hong Kong dollars.

The Group's reportable segments are set out in Note 2 and are described on pages 9 to 10.

2 Segmental information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors of the Company for the purpose of resource allocation and performance assessment. The Group has two operating segments, namely Investment Properties and Development Properties. No operating segments have been aggregated to form the reportable segments. Set out below is an analysis of the Group's underlying profit and total equity by reportable segment.

	2019				2018			
	Investment Properties HK$m	**Development Properties HK$m**	**Corporate HK$m**	**Total HK$m**	Investment Properties HK$m	Development Properties HK$m	Corporate HK$m	Total HK$m
Revenue	**8,052**	**9**	**-**	**8,061**	7,961	1	-	7,962
Net operating costs	**(1,239)**	**(1)**	**(722)**	**(1,962)**	(1,300)	-	(612)	(1,912)
Share of operating profit of joint ventures	**8**	**-**	**-**	**8**	5	-	-	5
Underlying operating profit /(loss)	**6,821**	**8**	**(722)**	**6,107**	6,666	1	(612)	6,055
Net financing charges								
- subsidiaries				**(750)**				(681)
Tax								
- subsidiaries				**(744)**				(805)
- share of joint ventures				**(1)**				(1)
				(745)				(806)
Underlying profit attributable to shareholders				**4,612**				4,568
Non-trading items:								
- change in fair value of investment properties				**(7,021)**				9,339
(Loss)/profit attributable to shareholders				**(2,409)**				13,907

2 Segmental information continued

	Revenue		Underlying operating profit		Underlying profit attributable to shareholders	
	2019	2018	**2019**	2018	**2019**	2018
	HK$m	HK$m	**HK$m**	HK$m	**HK$m**	HK$m
By geographical location						
Hong Kong	**8,061**	7,962	**6,829**	6,667	**6,829**	6,667
Corporate, net financing charges and tax	**-**	-	**(722)**	(612)	**(2,217)**	(2,099)
	8,061	7,962	**6,107**	6,055	**4,612**	4,568

	Segment assets					
	Investment properties HK$m	Properties for sale HK$m	Others HK$m	Segment liabilities HK$m	Unallocated assets and liabilities HK$m	Total assets and liabilities HK$m
By business						
2019						
Investment Properties	**245,441**	**-**	**983**	**(3,970)**	**-**	**242,454**
Development Properties	**-**	**158**	**1**	**(28)**	**-**	**131**
Unallocated assets and liabilities	**-**	**-**	**-**	**-**	**(20,621)**	**(20,621)**
	245,441	**158**	**984**	**(3,998)**	**(20,621)**	**221,964**
2018						
Investment Properties	251,428	-	800	(3,635)	-	248,593
Development Properties	-	158	1	(30)	-	129
Unallocated assets and liabilities	-	-	-	-	(20,742)	(20,742)
	251,428	158	801	(3,665)	(20,742)	227,980
By geographical location						
2019						
Hong Kong	**245,441**	**158**	**984**	**(3,998)**	**-**	**242,585**
Unallocated assets and liabilities	**-**	**-**	**-**	**-**	**(20,621)**	**(20,621)**
	245,441	**158**	**984**	**(3,998)**	**(20,621)**	**221,964**
2018						
Hong Kong	251,428	158	801	(3,665)	-	248,722
Unallocated assets and liabilities	-	-	-	-	(20,742)	(20,742)
	251,428	158	801	(3,665)	(20,742)	227,980

Unallocated assets and liabilities include tax assets and liabilities, bank balances, borrowings, interest receivable and payable derivative financial instruments and inter-group balances.

3 Revenue

	2019	2018
	HK$m	HK$m
Rental income	**7,307**	7,234
Management fee income	**744**	726
Sale of properties - recognised at a point in time	**9**	1
Others	**1**	1
	8,061	7,962

The Group's principal business activities are property investment and development.

Total variable rents included in rental income amounted to HK$64 million (2018: HK$89 million).

The maturity analysis of lease payments, showing the undiscounted lease payments to be received after the balance sheet date are as follow:

	2019	2018
	HK$m	HK$m
Within one year	**6,415**	6,520
Between one and two years	**4,808**	4,698
Between two and five years	**6,711**	6,013
Beyond five years	**2,367**	2,225
	20,301	19,456

Generally the Group's operating leases are for terms of three years or more.

4 Net operating costs

	2019	2018
	HK$m	HK$m
Cost of sales	**(1,240)**	(1,300)
Administrative expenses	**(722)**	(612)
	(1,962)	(1,912)

The following charges are included in net operating costs:

Operating expenses arising from investment properties	**(1,239)**	(1,300)
Depreciation of tangible fixed assets (see Note 8)	**(31)**	(11)
Auditor's remuneration	**(3)**	(3)

None of the Directors received or will receive any fees or emoluments in respect of their services to the Company during the year (2018: Nil).

5 Net financing charges

	2019 HK$m	2018 HK$m
Interest expense		
- bank loans and overdrafts	**(85)**	(113)
- other borrowings	**(901)**	(820)
Total interest expense	**(986)**	(933)
Commitment and other fees	**(67)**	(70)
Financing charges	**(1,053)**	(1,003)
Interest income on amounts due from the immediate holding company	**191**	191
Interest income on amounts due from a fellow subsidiary	**104**	128
Interest income on bank deposits and other loan receivables	**8**	3
Financing income	**303**	322
	(750)	(681)

Financing charges and financing income are stated after taking into account hedging gains and losses.

6 Share of results of joint ventures

	2019 HK$m	2018 HK$m
Investment Properties		
Underlying business performance	**7**	4
Non-trading items:		
- Change in fair value of investment properties	**(11)**	24
	(4)	28

The Group's share of revenue of joint ventures was HK$10 million (2018: HK$10 million).

7 Tax

Tax charged to profit and loss is analysed as follows:

	2019 HK$m	2018 HK$m
Current tax	**(718)**	(743)
Deferred tax - accelerated capital allowances	**(26)**	(62)
	(744)	(805)

Reconciliation between tax expense and tax at the applicable tax rate:

	2019 HK$m	2018 HK$m
Tax at applicable tax rate 16.5% (2018: 16.5%)	**274**	(2,423)
Change in fair value of investment properties not taxable in determining taxable profit	**(1,157)**	1,537
Income not subject to tax	**128**	106
Expenses not deductible in determining taxable profit	**(3)**	(1)
Temporary differences arising in the year not recognised	**10**	(26)
Under provision in prior years	**4**	2
	(744)	(805)

The applicable tax rate represents the Hong Kong profits tax rate.

8 Tangible fixed assets

	2019	2018
	HK$m	HK$m
Cost	**343**	215
Cumulative depreciation	**(86)**	(116)
Net book value at 1st January	**257**	99
Additions	**28**	169
Depreciation	**(31)**	(11)
Net book value at 31st December	**254**	257
Cost	**355**	343
Cumulative depreciation	**(101)**	(86)
	254	257

9 Investment properties

	Completed commercial properties	**Completed residential properties**	**Total**
	HK$m	**HK$m**	**HK$m**
2019			
At 1st January	**248,901**	**2,085**	**250,986**
Additions	**1,031**	**1**	**1,032**
Decrease in fair value	**(6,957)**	**(53)**	**(7,010)**
At 31st December	**242,975**	**2,033**	**245,008**
Leasehold properties			**245,008**
2018			
At 1st January	238,917	1,929	240,846
Additions	823	2	825
Increase in fair value	9,161	154	9,315
At 31st December	248,901	2,085	250,986
Leasehold properties			250,986

The Group measures its investment properties at fair value. The fair values of the Group's investment properties at 31st December 2019 and 2018 have been determined on the basis of valuations carried out by independent valuers who hold a recognised relevant professional qualification and have recent experience in Hong Kong and segments of the investment properties valued. The Group engaged Jones Lang LaSalle to value its commercial investment properties in Hong Kong which are held under long leases with unexpired lease terms of more than 50 years. The valuations, which conform to the International Valuation Standards issued by the International Valuation Standards Council and the HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors, were arrived at by reference to the net income, allowing for reversionary potential, of each property. The valuations are comprehensively reviewed by the Group.

9 Investment properties continued

Fair value measurements of residential properties using no significant non-observable inputs

Fair values of completed residential properties are generally derived using the direct comparison method. This valuation method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Fair value measurements of commercial properties using significant unobservable inputs

Fair values of completed commercial properties in Hong Kong are generally derived using the income capitalisation method. This valuation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to valuers' views of recent lettings, within the subject properties and other comparable properties.

The Group's policy is to recognise transfers between fair value measurements as of the date of the event or change in circumstances that caused the transfer.

Information about fair value measurements using significant unobservable inputs at 31st December 2019:

			Range of significant unobservable inputs	
	Fair value	**Valuation method**	**Prevailing market rent per month**	**Capitalisation rate**
	HK$m		**HK$**	**%**
Completed properties				
Hong Kong	**242,975**	Income capitalisation	44.2 to 280.5 per square foot	2.75 to 5.0

Prevailing market rents are estimated based on independent valuers' view of recent lettings, within the subject properties and other comparable properties. The higher the rents, the higher the fair value.

Capitalisation rates are estimated by independent valuers based on the risk profile of the properties being valued. The lower the rates, the higher the fair value.

10 Joint ventures

	2019	2018
	HK$m	HK$m
Unlisted joint ventures		
- share of attributable net assets	**363**	372
- amounts due from joint ventures	**1,173**	214
	1,536	586
By Business		
Investment Properties	**434**	443
Development Properties	**1,102**	143
	1,536	586

Amounts due from joint ventures interest free, unsecured and have no fixed terms of repayment.

Movements of joint ventures for the year:

	2019	2018
At 1st January	**586**	561
Share of results after tax	**(4)**	28
Dividends received and receivable	**(5)**	(4)
Loans to joint ventures	**959**	1
At 31st December	**1,536**	586

11 Debtors

	2019 HK$m	2018 HK$m
Trade debtors	**33**	33
Other debtors	**950**	767
	983	800
Non-current	**238**	63
Current	**745**	737
	983	800
By geographical area of operation		
Hong Kong	**983**	800

The fair value of trade debtors, contract assets and other debtors approximates to their carrying amounts, as the impact of discounting is not significant. Derivative financial instruments are stated at fair value.

Significant financial difficulties of a debtor, probability that a debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payment are considered indicators that the debt is impaired and an allowance for impairment is made based on the estimated irrecoverable amount determined by reference to past default experience.

The Group applied the simplified approach to measure expected credit loss, that is a lifetime expected loss allowance for trade debtors and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade debtors for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade debtors are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors and industry trends affecting the ability of the customers to settle the receivables. The expected loss rate are considered as insignificant.

On that basis, the loss allowance as at 31st December 2019 and 2018 was determined as follows for trade debtors.

	Below 30 days HK$m	**Between 31 and 60 days HK$m**	**Between 61 and 120 days HK$m**	**More than 120 days HK$m**	**Total HK$m**
2019					
Expected loss rate (%)	**-**	**-**	**-**	**-**	**-**
Gross carrying amount	**27**	**3**	**3**	**-**	**33**
Loss allowance	**-**	**-**	**-**	**-**	**-**
2018					
Expected loss rate (%)	-	-	-	-	-
Gross carrying amount	29	4	-	-	33
Loss allowance	-	-	-	-	-

Trade debtors and other debtors are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Other debtors are further analysed as follows:

	2019 HK$m	2018 HK$m
Prepayments	**608**	564
Derivative financial instruments	**238**	63
Others	**104**	140
	950	767

Trade and other debtors excluding prepayments and derivative financial instruments are stated at amortised cost.

12 Inter-group balances

	2019 HK$m	2018 HK$m
Non-current assets		
Amount due from immediate holding company		
Interest bearing	**1,550**	1,668
Amounts due from fellow subsidiaries		
Interest bearing	**2,590**	2,588
	4,140	4,256
Current assets		
Amount due from intermediate holding company		
Interest free	**21**	23
Amount due from immediate holding company		
Interest free	**210**	1,486
Interest bearing	**2,828**	3,004
Amounts due from fellow subsidiaries		
Interest free	**147**	376
	3,206	4,889
	7,346	9,145
Current liabilities		
Amounts due to fellow subsidiaries		
Interest free	**(2,530)**	(4,030)
	(2,530)	(4,030)
	4,816	5,115

The balances are unsecured, repayable on demand and fully performing. Interest is charged on the interest bearing balances at commercial rates.

The fair value of the inter-group balances approximates their carrying amounts, as the impact of discounting is not significant.

No provision has been recognised by the Group as at 31st December 2019 in respect of expected credit losses on inter-group balances.

13 Deferred tax assets and liabilities

	Accelerated capital allowances HK$m	Other temporary differences HK$m	Total HK$m
2019			
At 1st January	**(648)**	**14**	**(634)**
Charged to profit and loss	**(26)**	**-**	**(26)**
Charged to other comprehensive income	**-**	**(33)**	**(33)**
At 31st December	**(674)**	**(19)**	**(693)**
Deferred tax assets	**-**	**3**	**3**
Deferred tax liabilities	**(674)**	**(22)**	**(696)**
	(674)	**(19)**	**(693)**
2018			
At 1st January	(586)	9	(577)
Charged to profit and loss	(62)	-	(62)
Charged to other comprehensive income	-	5	5
At 31st December	(648)	14	(634)
Deferred tax assets	-	15	15
Deferred tax liabilities	(648)	(1)	(649)
	(648)	14	(634)

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

The Group's deferred tax assets of HK$3 million (2018: HK$3 million) arising from unused tax losses of HK$21 million (2018: HK$20 million) have not been recognised in the financial statements. Unused tax losses have no expiry date.

14 Properties for sale

	2019 HK$m	2018 HK$m
Properties under development	**104**	104
Provision for impairment	**(86)**	(86)
	18	18

15 Bank balances

	2019 **HK$m**	2018 HK$m
Deposits with banks and financial institutions	**864**	65
Bank balances	**79**	52
	943	117

The weighted average interest rates on deposits with bank and financial institutions of the Group and the Company are 2.5% (2018: 2.6%) per annum respectively.

16 Creditors

	2019 **HK$m**	2018 HK$m
Trade creditors	**1,613**	1,289
Other creditors	**289**	278
Tenants' deposits	**1,961**	1,879
Derivative financial instruments	**2**	101
Rent received in advance	**130**	114
	3,995	3,661
Non-current	**28**	130
Current	**3,967**	3,531
	3,995	3,661
By geographical area of operation		
Hong Kong	**3,995**	3,661

Derivative financial instruments are stated at fair value. Other creditors are stated at amortised cost. The fair value of these creditors approximates their carrying amounts.

17 Borrowings

	2019 Carrying amount HK$m	2019 Fair value HK$m	2018 Carrying amount HK$m	2018 Fair value HK$m
Current				
Bank overdrafts	**37**	**37**	36	36
Current portion of long-term borrowings				
- HK$200m 10-Year notes at 4.135%	**-**	**-**	200	202
- HK$500m 10-Year notes at 4.24%	**500**	**502**	-	-
- HK$500m 10-Year notes at 3.95%	**500**	**503**	-	-
	1,037	**1,042**	236	238
Long-term				
Bank loans	**3,325**	**3,325**	3,564	3,564
Notes	**21,788**	**22,934**	21,587	22,177
	25,113	**26,259**	25,151	25,741
	26,150	**27,301**	25,387	25,979

The fair values are based on market prices or are estimated using the expected future payments discounted at market interest rates ranging from 2.0% to 3.3% (2018: 2.2% to 2.9%) per annum. The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant.

At 31st December 2019 and 2018, all borrowings were unsecured.

The borrowings are further summarised as follows:

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period outstanding Years	HK$m	Floating rate borrowings HK$m	Total HK$m
By currency - Hong Kong dollar					
2019	**4.0**	**6.5**	**17,950**	**8,200**	**26,150**
2018	4.0	7.1	17,046	8,341	25,387

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account hedging transactions.

The movements in borrowings are as follow:

	Bank overdrafts HK$m	Long-term borrowings HK$m	Short-term borrowings HK$m	Total HK$m
2019				
At 1st January	**36**	**25,151**	**200**	**25,387**
Exchange differences	**-**	**(70)**	**-**	**(70)**
Transfer	**-**	**(1,000)**	**1,000**	**-**
Change in fair value	**-**	**121**	**-**	**121**
Change in bank overdrafts	**1**	**-**	**-**	**1**
Drawdown of borrowings	**-**	**1,899**	**-**	**1,899**
Repayment of borrowings	**-**	**(988)**	**(200)**	**(1,188)**
At 31st December	**37**	**25,113**	**1,000**	**26,150**
2018				
At 1st January	33	24,016	600	24,649
Exchange differences	-	19	-	19
Transfer	-	(200)	200	-
Change in fair value	-	(41)	-	(41)
Change in bank overdrafts	3	-	-	3
Drawdown of borrowings	-	13,136	-	13,136
Repayment of borrowings	-	(11,779)	(600)	(12,379)
At 31st December	36	25,151	200	25,387

17 Borrowings continued

The exposure of the borrowings to interest rate changes and the contractual repricing dates at 31st December after taking into account hedging transactions are as follows:

	2019 HK$m	2018 HK$m
Floating rate borrowings	**8,200**	8,341
Fixed rate borrowings		
Within one year	**1,000**	200
Between one and two years	**-**	999
Between two and three years	**2,075**	-
Between three and four years	**1,395**	2,079
Between four and five years	**1,549**	1,394
Beyond five years	**11,931**	12,374
	17,950	17,046
	26,150	25,387

An analysis of the carrying amount of notes outstanding at 31st December is as below:

	Maturity	**2019 Current HK$m**	**2019 Non-current HK$m**	2018 Current HK$m	2018 Non-current HK$m
Medium term notes					
HK$200m 10-year notes at 4.135%	2019	**-**	**-**	200	-
HK$500m 10-year notes at 4.24%	2020	**500**	**-**	-	500
HK$500m 10-year notes at 3.95%	2020	**500**	**-**	-	499
HK$500m 12-year notes at 4.28%	2021	**-**	**510**	-	511
HK$410m 10-year notes at 3.86%	2022	**-**	**409**	-	408
US$500m 10-year notes at 4.50% *	2022	**-**	**3,873**	-	3,824
HK$305m 10-year notes at 3.00%	2022	**-**	**304**	-	304
HK$200m 10-year notes at 2.90%	2022	**-**	**199**	-	199
HK$1,100m 10-year notes at 3.95%	2023	**-**	**1,096**	-	1,095
HK$300m 10-year notes at 3.95%	2023	**-**	**299**	-	299
US$400m 10-year notes at 4.625% *	2024	**-**	**3,166**	-	3,129
HK$300m 15-year notes at 4.10%	2025	**-**	**299**	-	299
US$600m 15-year notes at 4.50% *	2025	**-**	**4,741**	-	4,781
HK$302m 15-year notes at 3.75%	2026	**-**	**300**	-	300
HK$785m 15-year notes at 4.00%	2027	**-**	**776**	-	775
HK$473m 15-year notes at 4.04%	2027	**-**	**472**	-	472
HK$200m 15-year notes at 3.95%	2027	**-**	**199**	-	199
HK$300m 15-year notes at 3.15%	2028	**-**	**297**	-	296
HK$450m 10-year notes at 3.83%	2028	**-**	**449**	-	449
HK$325m 15-year notes at 4.22%	2028	**-**	**323**	-	323
HK$355m 10-year notes at 3.75%	2028	**-**	**353**	-	353
HK$400m 15-year notes at 4.40%	2029	**-**	**396**	-	395
HK$550m 10-year notes at 2.93%	2029	**-**	**549**	-	-
HK$800m 20-year notes at 4.11%	2030	**-**	**800**	-	800
HK$200m 20-year notes at 4.125%	2031	**-**	**198**	-	198
HK$240m 20-year notes at 4.00%	2032	**-**	**236**	-	236
HK$700m 15-year notes at 4.12%	2033	**-**	**694**	-	694
HK$604m 15-year notes at 3.67%	2034	**-**	**601**	-	-
HK$250m 30-year notes at 5.25%	2040	**-**	**249**	-	249
		1,000	**21,788**	200	21,587

* Listed on the Singapore Exchange.

18 Share capital

	Ordinary shares in millions **2019**	*Ordinary shares in millions* 2018	**2019 HK$m**	2018 HK$m
Issued and fully paid				
Ordinary shares	**2,586**	2,586	**2,147**	2,147

19 Revenue and other reserves

	2019 HK$m	2018 HK$m
Revenue reserves		
At 1st January	**225,882**	224,792
(Loss)/profit for the year	**(2,409)**	13,907
Dividends (see Note 20)	**(3,779)**	(12,817)
At 31st December	**219,694**	225,882
Other capital reserves		
At 1st January and at 31st December	**11**	11
Hedging reserves		
At 1st January	**(60)**	(32)
Cash flow hedges		
- net gain/(loss) arising during the year	**227**	(11)
- transfer to profit and loss	**(22)**	(22)
- deferred tax	**(33)**	5
At 31st December	**112**	(60)
Total reserves at 31st December	**219,817**	225,833

20 Dividends

	2019 HK$m	2018 HK$m
Interim dividends of HK$1.4611 (2018: HK$4.9556) per share	**3,779**	12,817

The Directors do not propose the payment of a final dividend (2018: Nil).

21 Cash and cash equivalents

	2019 HK$m	2018 HK$m
Bank balances	**943**	117
Bank overdraft (see Note 17)	**(37)**	(36)
	906	81

22 Derivative financial instruments

The fair values of derivative financial instruments at 31st December are as follows:

	2019		2018	
	Positive fair value HK$m	**Negative fair value HK$m**	Positive fair value HK$m	Negative fair value HK$m
Designated as cash flow hedges				
- cross currency swaps	**154**	**-**	20	34
Designated as fair value hedges				
- interest rate swaps	**10**	**-**	12	-
- cross currency swaps	**74**	**2**	31	67

Interest rate swaps
The notional principal amounts of the outstanding interest rate swap contracts of the Group at 31st December 2019 were HK$500 million (2018: HK$500 million).

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 2.02% to 2.43% (2018: 2.24% to 2.33%) per annum.

Cross currency swaps
The contract amounts of the outstanding cross currency swap contracts of the Group at 31st December 2019 was HK$11,644 million (2018: HK$11,644 million).

23 Commitments

	2019 HK$m	2018 HK$m
Capital commitments - contracted not provided	**845**	580

24 Contingent liabilities

Various Group companies are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that adequate provisions have been made in the financial statements.

25 Related party transactions

The intermediate holding company of the Group is Hongkong Land Holdings Limited and the ultimate holding company is Jardine Matheson Holdings Limited. Both companies are incorporated in Bermuda.

In the normal course of business, the Group has entered into a variety of transactions with Hongkong Land Limited and its subsidiaries, the fellow subsidiaries of the Group. The more significant of these transactions are described below:

Corporate management services
The Group paid HK$644 million (2018: HK$610 million) in consideration for management consultancy services provided by Hongkong Land Limited. The Group paid HK$32 million (Nil in 2018) in consideration for management consultancy services provided by Hongkong Land Centric Limited. The Group paid HK$42 million (Nil in 2018) in consideration for management consultancy services provided by Hongkong Land Bespoke Limited.

Property management services
Hongkong Land (Property Management) Limited, a subsidiary of Hongkong Land Limited, provided property management services to the Group for a consideration of HK$175 million in 2019 (2018: HK$176 million). Hongkong Land (EXSQ Property Management) Limited, a subsidiary of Hongkong Land Limited, provided property management services to the Group for a consideration of HK$75 million in 2019 (2018: HK$73 million). The Group also reimbursed HK$113 million (2018: HK$110 million) property management expenses to Hongkong Land (Property Management) Limited.

Property leasing services
The Group paid HK$166 million (2018: HK$166 million) to Hongkong Land Limited as consideration for leasing and collection services to the Group.

The Group has entered into a leasing agreement with HKL (Landmark Hotel) Limited, a fellow subsidiary, for lease of property. Gross rental and service and management charges on such property in 2019 amounted to HK$40 million (2018: HK$49 million).

In the normal course of business, the Group has also entered into a variety of transactions with the subsidiaries, associates and joint ventures of Jardine Matheson Holdings Limited ("Jardine Matheson group members"). The more significant of these transactions are described below:

Property and other services
The Group rented properties to Jardine Matheson group members. Gross rents on such properties in 2019 amounted to HK$168 million (2018: HK$172 million).

Jardine Matheson group members provided property construction, maintenance and other services to the Group in 2019, in aggregate amounted to HK$374 million (2018: HK$372 million).

The outstanding balances arising from the above services at 31st December 2019 and 2018 are not material.

26 Principal subsidiaries and joint ventures

The principal subsidiaries and joint ventures of the Group at 31st December 2019 are set out below.

	Effective holdings %	Issued share capital		Main activities	Place of incorporation
Subsidiaries					
The Hongkong Land Property Company, Ltd	100	HK$	200	Property investment	Hong Kong
HKL (Prince's Building) Ltd*	100	HK$	200	Property investment	Hong Kong
HKL (Chater House) Ltd*	100	HK$	1,500,000	Property investment	Hong Kong
Mulberry Land Company Ltd*	100	HK$	200	Property investment	Hong Kong
The Hongkong Land Finance (Cayman Islands) Company Ltd	100	US$	2	Finance	Cayman Islands
The Hongkong Land Notes Company Ltd	100	US$	2	Finance	British Virgin Islands
Joint ventures					
Bonus Plus Company Ltd*	50	HK$	2	Property development	Hong Kong
Normelle Estates Ltd*	50	HK$	10,000	Property investment	Hong Kong

* Owned indirectly

All effective holdings are unchanged from 31st December 2018.

27 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	As at 31 December	
	2019	2018
	HK$m	HK$m
Net operating assets		
Tangible fixed assets	**254**	257
Investment in subsidiaries	**2**	2
Non-current assets	**256**	259
Current debtors	**11**	10
Amounts due from subsidiaries	**15,653**	16,254
Current inter-group balances	**312**	1,727
Bank balances	**941**	114
Current assets	**16,917**	18,105
Current creditors	**(137)**	(159)
Amounts due to subsidiaries	**(8,083)**	(7,832)
Current inter-group balances	**(2,522)**	(4,023)
Current liabilities	**(10,742)**	(12,014)
Net current assets	**6,175**	6,091
Long-term borrowings	**(3,325)**	(3,564)
Deferred tax liabilities	**(31)**	(41)
	3,075	2,745
Total equity		
Share capital (2,586m shares issued and fully paid)	**2,147**	2,147
Revenue and other reserves (Note (a))	**928**	598
Shareholders' funds	**3,075**	2,745

Approved by the Board of Directors on

27 Balance sheet and reserve movement of the Company continued

Note (a) Reserve movement of the Company

	2019 HK$m	2018 HK$m
Revenue reserves		
At 1st January	**587**	9,059
Profit for the year	**4,109**	4,345
Dividends (see Note 20)	**(3,779)**	(12,817)
At 31st December	**917**	587
Other capital reserves		
At 1st January and at 31st December	**11**	11
Total reserves at 31st December	**928**	598

28 Benefits and interests of Directors

The Directors of the Company do not receive any emoluments from the Company during the year, but receive emoluments from a fellow subsidiary in respect of their services to the Company. No apportionment has been made as the Directors consider that it is impracticable to apportion this amount between their services to the Company and their services to the group companies.

Directors' remuneration including consideration for directors' services in respect of services to all companies of the Group totalled HK$94 million (2018: HK$83 million), which is borne by a fellow subsidiary. No consideration was provided to or receivable by third parties for making available directors' services (2018: HK$nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: HK$nil).

29 Principal accounting policies

Basis of consolidation

i) The consolidated financial statements include the financial statements of the Company, its subsidiaries, and the Group's interests in joint ventures.

ii) A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition include the fair value at the acquisition date of any contingent consideration. The Group recognises the non-controlling interest's proportionate share of the recognised identifiable net assets of the acquired subsidiary. In a business combination achieved in stages, the Group remeasures its previously held interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in profit and loss. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. When control over a previous subsidiary is lost, any remaining interest in the entity is remeasured at fair value and the resulting gain or loss is recognised in profit and loss.

All material intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

iii) A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint ventures are included on the equity basis of accounting.

Profits and losses resulting from upstream and downstream transactions between the Group and its joint ventures are recognised in the consolidated financial statements only to the extent of unrelated investor's interests in the joint ventures.

iv) The results of subsidiaries and joint ventures are included or excluded from their effective dates of acquisition or disposal respectively. The results of entities other than subsidiaries and joint ventures are included to the extent of dividends received when the right to receive such dividend is established.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Foreign currencies

Transactions in foreign currencies are accounted for at the exchange rates ruling at the transaction dates.

Monetary assets and liabilities expressed in foreign currencies, are translated into Hong Kong dollars at the rates of exchange ruling at the year end. Results expressed in foreign currencies are translated into Hong Kong dollars at the average rates of exchange ruling during the year, which approximate the exchange rates at the dates of the transactions. All exchange differences are recognised in profit and loss.

Impairment of non-financial assets

Assets that have indefinite useful lives are not subject to amortisation and are tested for impairment annually and whenever there is an indication that the assets may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the units may be impaired. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment annually.

29 Principal accounting policies continued

Goodwill

Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the acquisition-date fair value of any previously held equity interest in the acquiree over the acquisition-date fair value of the Group's share of the net identifiable assets acquired. Non-controlling interests are measured at their proportionate share of the net identifiable assets at the acquisition date. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in profit and loss. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures is included in investment in joint ventures. Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing and is carried at cost less accumulated impairment loss.

The profit or loss on disposal of subsidiaries and joint ventures is stated after deducting the carrying amount of goodwill relating to the entity sold.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and impairment. Depreciation of tangible fixed assets is calculated on the straight line basis to allocate the cost or valuation of each asset to its residual value over its estimated useful life. The residual values and useful lives are reviewed at each balance sheet date. The estimated useful lives are as follows:

Furniture, equipment and motor vehicles	3 – 10 years

Where the carrying amount of a tangible fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The profit or loss on disposal of tangible fixed assets is recognised by reference to their carrying amount.

Investment properties

Properties including those under operating leases which are held for long-term rental yields or capital gains are classified and accounted for as investment properties, but the business model does not necessarily envisage that the properties will be held for their entire useful life. Investment properties are carried at fair value, representing estimated open market value determined annually by independent qualified valuers who have recent experience in the location and category of the investment property being valued. The market value of commercial properties are calculated on the discounted net rental income allowing for reversionary potential. The market value of residential properties are arrived at by reference to market evidence of transaction prices for similar properties. Changes in fair value are recognised in profit and loss.

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.

The Group enters into contracts with lease components as a lessor on its investment properties. These leases are operating leases as they do not transfer the risk and rewards incidental to the underlying investment properties. The Group recognises the lease payments received under these operating leases on a straight line basis over the lease term as part of revenue in the profit and loss.

Properties for sale

Properties for sale, which comprise land and buildings held for resale, are stated at the lower of cost and net realisable value. The cost of properties for sale comprises land cost, and construction and other development costs.

Debtors

Debtors are recognised initially at the amount of consideration that is unconditional and measured subsequently at amortised cost using the effective interest method. A contract asset arises if the Group has a right to consideration in exchange for goods or services the Group has transferred to a customer, that is conditional on something other than the passage of time. All other debtors, excluding derivative financial instruments, are measured at amortised cost except where the effect of discounting would be immaterial. For trade debtors and contract assets, the Group applied the simplified approach as permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the debtors. Provision for impairment is established by considering potential financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in arriving at operating profit. When a debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amount previously written off are credited to profit and loss.

29 Principal accounting policies continued

Debtors continued

Debtors with maturities greater than twelve months after the balance sheet date are classified under non-current assets.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and financial institutions, and bank and cash balances, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current borrowings.

Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligations can be made.

Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method.

Borrowing costs relating to major development projects are capitalised until the asset is substantially completed. Capitalised borrowing costs are included as part of the cost of the asset. All other borrowing costs are expensed as incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or direct in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Hong Kong where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Provision for deferred tax is made on the revaluation of certain non-current assets and, in relation to acquisitions, on the difference between the fair value of the net assets acquired and their tax base. Deferred tax is provided on temporary differences associated with investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures and not as speculative investments. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as a hedge of the fair value of a recognised asset or liability (fair value hedge), or a hedge of a forecast transaction or of the foreign currency risk on a firm commitment (cash flow hedge), or a hedge of a net investment in a foreign entity.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

29 Principal accounting policies continued

Derivative financial instruments continued

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recognised in profit and loss, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit and loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit and loss over the residual period to maturity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in other comprehensive income and accumulated in equity under hedging reserves. Changes in the fair value relating to the ineffective portion is recognised immediately in profit and loss. Where the hedged item results in the recognition of a non-financial asset or of a non-financial liability, the deferred gains and losses are included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in profit and loss as the hedged item affects profit and loss. Otherwise, amounts deferred in hedging reserves are transferred to profit and loss in the same periods during which the hedged firm commitment or forecast transaction affects profit and loss. The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit and loss within finance cost at the same time as the interest expense on the hedged borrowings. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in hedging reserves at that time remains in the hedging reserves and is recognised when the committed or forecast transaction ultimately is recognised in profit and loss. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserves is immediately transferred to profit and loss.

Certain derivative transactions, while providing effective economic hedges under the Group’s risk management policies, do not qualify for hedge accounting under the specific rules in HKFRS 9. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under HKFRS 9 are recognised immediately in profit and loss.

Hedges of net investments in foreign entities are accounted for on a similar basis to that used for cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in exchange reserves; the gain or loss relating to the ineffective portion is recognised immediately in profit and loss.

The fair value of derivatives which are designated and qualify as effective hedges are classified as non-current assets or liabilities if the remaining maturities of the hedged assets or liabilities are greater than 12 months after the balance sheet date.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Non-trading items

Non-trading items are separately identified to provide greater understanding of the Group’s underlying business performance. Items classified as non-trading items include fair value gains or losses on revaluation of investment properties; gains and losses arising from the sale of businesses, investments and investment properties; impairment of non-depreciable intangible assets and other investments; provisions for the closure of businesses; acquisition-related costs in business combinations; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

Dividends

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

Revenue recognition

i) *Properties for sale*
Revenue from properties for sale is recognised when or as the control of the property is transferred to the customer. Revenue consists of the fair value of the consideration received and receivable, net of value added tax, rebates and discounts. Proceeds received in advance for pre-sale are recorded as contract liabilities. Depending on the terms of the contract and the laws that apply to the contract, control of the property may transfer over time or at a point in time.

29 Principal accounting policies continued

Revenue recognition continued

i) *Properties for sale* continued

If control of the property transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the property.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

For properties for sale under development and sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

ii) *Investment properties*

Rental income from investment properties are accounted for on an accruals basis over the lease term.

iii) *Service income*

Revenue from property management service and hospitality service are recognised over-time when services are performed.

30 Standards and Amendments Issued But Not Yet Effective

'Interest Rate Benchmark Reform: Amendments to HKFRS 9, HKAS 39 and HKFRS 7' (effective 1st January 2020) was issued in September 2019. The Group has elected to early adopt the amendments in 2019 (refer Note 1).

A number of other new standards and amendments, which are effective for accounting periods beginning after 2019, have also been published and will be adopted by the Group from their effective dates. The Group expects the adoption of the relevant standards and amendments will not have a significant effect on the Group's consolidated financial statements.

31 Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's treasury function co-ordinates, under the directions of the board of Hongkong Land Limited, a fellow subsidiary, financial risk management policies and their implementation on a group-wide basis. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimise the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps, cross-currency swaps and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The effective portion of the change in the fair value of the hedging instrument is deferred into the cash flow hedge reserve through other comprehensive income and will be recognised in profit and loss when the hedged item affects profit and loss. In general, the volatility in profit or loss can be reduced by applying hedge accounting.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms matched during the year, effective economic relationship between the swaps and loans.

31 Financial Risk Management continued

Financial risk factors continued

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to: (i) the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan; and (ii) differences in critical terms between the interest rate swaps and loans. The ineffectiveness during 2019 or 2018 in relation to interest rate swaps and loans was not material.

i) Market risk

Foreign exchange risk
Entities within the Group are exposed to foreign exchange risk from future commercial transactions and net monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency.

Entities in the Group use cross-currency swaps and forward foreign exchange contracts in a consistent manner to hedge firm and anticipated foreign exchange commitments and manage their foreign exchange risk arising from future commercial transactions. Group entities are required to manage their foreign exchange risk against their functional currency. Foreign currency borrowings are swapped into the entity's functional currency using cross-currency swaps except where the foreign currency borrowings are repaid with cash flows generated in the same foreign currency. The purpose of these hedges is to mitigate the impact of movements in foreign exchange rates on assets and liabilities and the profit and loss account of the Group.

Currency risks as defined by HKFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. At 31st December 2019, there are no significant monetary balances held by group companies that are denominated in a non-functional currency other than the United States dollar borrowings hedged by cross-currency swap contracts with contract amounts of HK$11,644 million (2018: HK$11,644 million). Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

Since the Group manages the interdependencies between foreign exchange risk and interest rate risk of foreign currency borrowings using cross-currency swaps, the sensitivity analysis on financial impacts arising from cross-currency swaps is included in the sensitivity assessment on interest rates under the interest rate risk section.

Interest rate risk
The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments such as interest rate swaps. The Group monitors interest rate exposure on a monthly basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. At 31st December 2019, the Group's interest rate hedge was 69% (2018: 67%) with an average tenor of seven years (2018: seven years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in Note 17.

Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. Borrowings at floating rates therefore expose the Group to cash flow interest rate risk. The Group manages this risk by using forward rate agreements to a maturity of one year, and by entering into interest rate swaps for a maturity of generally up to five years. Forward rate agreements and interest rate swaps have the economic effect of converting borrowings from floating rate to fixed rate.

Fair value interest rate risk is the risk that the value of a financial asset or liability and derivative financial instrument will fluctuate because of changes in market interest rates. The Group manages its fair value interest rate risk by entering into interest rate swaps which have the economic effect of converting borrowings from fixed rate to floating rate, to maintain the Group's fixed rate instruments to within the Group's guideline.

At 31st December 2019, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been decreased/increased by HK$36 million (2018: HK$45 million) and hedging reserve would have been increased/decreased by HK$302 million (2018: HK$357 million), as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States and Hong Kong rates, over the period until the next annual balance sheet date. In the case of effective fair value hedges, changes in fair value of the hedged item caused by interest rate movements balance out in profit and loss account against changes in the fair value of the hedging instruments. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

31 Financial Risk Management continued

Financial risk factors continued

ii) Credit risk

The Group's credit risk is primarily attributable to deposits with banks, credit exposures to customers, inter-group balances and derivative financial instruments with a positive fair value. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilisation of credit limits is regularly monitored. Similarly transactions involving derivative financial instruments are with banks with sound credit ratings and capital adequacy ratios.

In respect of credit exposures to customers, the Group has policies in place to ensure that investment properties are let principally to corporate companies with appropriate credit history, and rental deposits in the form of cash or bank guarantee are usually received from tenants. The Group receives progress payments from sales of residential properties to individual customers prior to the completion of transactions. In the event of default by customers, the Group undertakes legal proceedings to recover the property. Amounts due from joint ventures and inter-group balances are generally supported by the underlying assets.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

iii) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash and marketable securities, and ensuring the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group's ability to fund its existing and prospective debt requirements is managed by maintaining diversified funding sources with adequate committed funding lines from high quality lenders, and by monitoring rolling short-term forecasts of the Group's cash and gross debt on the basis of expected cash flows. In addition long-term cash flows are projected to assist with the Group's long-term debt financing plans.

At 31st December 2019, total committed and uncommitted borrowing facilities amounted to HK$35,668 million (2018: HK$39,047 million) of which HK$26,150 million (2018: HK$25,387 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$9,175 million (2018: HK$13,316 million). Undrawn uncommitted facilities in the form of revolving credit and term loan facilities, amounted to HK$343 million (2018: HK$344 million).

The following table analyses the Group's non-derivative financial liabilities, net-settled derivative financial liabilities and gross-settled financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Repayable on demand HK$m	Within one year HK$m	Between one and two years HK$m	Between two and three years HK$m	Between three and four years HK$m	Between four and five years HK$m	Beyond five years HK$m	Total undiscounted cash flows HK$m
2019								
Borrowings	**-**	**2,076**	**1,523**	**9,011**	**2,086**	**3,615**	**13,546**	**31,857**
Trade and other creditors	**-**	**1,867**	**10**	**1**	**1**	**2**	**21**	**1,902**
Inter-group balances	**2,530**	**-**	**-**	**-**	**-**	**-**	**-**	**2,530**
Gross settled derivative financial instruments								
- inflow	**-**	**529**	**529**	**4,326**	**354**	**3,334**	**4,850**	**13,922**
- outflow	**-**	**(521)**	**(521)**	**(4,290)**	**(327)**	**(3,414)**	**(4,809)**	**(13,882)**
2018								
Borrowings	-	1,276	2,007	1,492	9,241	2,050	15,739	31,805
Trade and other creditors	-	1,528	13	1	2	1	22	1,567
Inter-group balances	4,030	-	-	-	-	-	-	4,030
Gross settled derivative financial instruments								
- inflow	-	533	533	533	4,354	356	8,238	14,547
- outflow	-	(517)	(517)	(517)	(4,287)	(326)	(8,245)	(14,409)

31 Financial Risk Management continued

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst seeking to maximise benefits to shareholders and other stakeholders. Capital is equity as shown in the consolidated balance sheet plus net debt.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, purchase Group shares, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group does not have a defined dividend policy or share repurchase plan.

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less bank balances. Interest cover is calculated as underlying operating profit and the Group's share of underlying operating profit of joint ventures divided by net financing charges including the Group's share of net financing charges within joint ventures. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2019 and 2018 are as follows:

	2019	2018
Gearing ratio (%)	**11**	11
Interest cover (times)	**8**	9

Fair value estimation

i) Financial instruments that are measured at fair value

Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly ('observable current market transactions')

The fair values of derivative financial instruments are determined using rates quoted by the Group's bankers at the balance sheet date. The rates for interest rate swaps and forward foreign exchange contracts are calculated by reference to market interest rates and foreign exchange rates.

The table below analyses financial instruments carried at fair value and measured using observable current market transactions.

	2019 HK$m	2018 HK$m
Assets		
Derivatives designated at fair value		
- through other comprehensive income	**154**	20
- through profit and loss	**84**	43
	238	63
Liabilities		
Derivatives designated at fair value		
- through other comprehensive income	**-**	(34)
- through profit and loss	**(2)**	(67)
	(2)	(101)

ii) Financial instruments that are not measured at fair value

The fair values of current debtors, bank balances, current creditors, current borrowings, amounts due from/to subsidiaries and inter-group balances are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are based on market prices or are estimated using the expected future payments discounted at market interest rates.

31 Financial Risk Management continued

Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts as at 31st December 2019 and 2018 are as follows:

	Financial assets at amortised cost HK$m	Derivatives used for hedging HK$m	Other financial liabilities at amortised cost HK$m	Total carrying amount HK$m	Fair value HK$m
2019					
Debtors	**137**	**238**	**-**	**375**	**375**
Inter-group balances	**7,346**	**-**	**-**	**7,346**	**7,346**
Bank balances	**943**	**-**	**-**	**943**	**943**
	8,426	**238**	**-**	**8,664**	**8,664**
Borrowings	**-**	**-**	**(26,150)**	**(26,150)**	**(27,301)**
Creditors	**-**	**(2)**	**(1,902)**	**(1,904)**	**(1,904)**
Inter-group balances	**-**	**-**	**(2,530)**	**(2,530)**	**(2,530)**
	-	**(2)**	**(30,582)**	**(30,584)**	**(31,735)**
2018					
Debtors	173	63	-	236	236
Inter-group balances	9,145	-	-	9,145	9,145
Bank balances	117	-	-	117	117
	9,435	63	-	9,498	9,498
Borrowings	-	-	(25,387)	(25,387)	(25,979)
Creditors	-	(101)	(1,567)	(1,668)	(1,668)
Inter-group balances	-	-	(4,030)	(4,030)	(4,030)
	-	(101)	(30,984)	(31,085)	(31,677)

32 Critical Accounting Estimates and Judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

Investment properties

The fair values of investment properties are determined by independent valuers on an open market for existing use basis calculated on the discounted net income allowing for reversionary potential. Capitalisation rates in the range of 2.75% to 3.35% for office (2018: 2.75% to 3.35%) and 4.5% to 5.0% for retail (2018: 4.50% to 5.00%) are used in the fair value determination.

Considerations have been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Non-trading items

The Group uses underlying business performance in its internal financial reporting to distinguish between the underlying profits and non-trading items. The identification of non-trading items requires judgement by management, but follows the consistent methodology as set out in the Group's accounting policies.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE HONGKONG LAND COMPANY, LIMITED
香港置地有限公司
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of The Hongkong Land Company, Limited 香港置地有限公司 (the "Company") and its subsidiaries (the "Group") set out on pages 3 to 35, which comprise:

- the consolidated balance sheet as at 31st December 2019;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the directors' report and Major Property Portfolio, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

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

Responsibilities of Directors for the Consolidated Financial Statements (Continued)

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment 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 directors 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,

Major Property Portfolio

At 31st December 2019

Commercial Investment Property

	Attributable interests	Location	Lettable area (100%) Total	Office	Retail
	%		(in thousands of square metres)		
Alexandra House	100	Hong Kong	34	30	4
Chater House	100	Hong Kong	43	39	4
Exchange Square	100		139		
One Exchange Square	100	Hong Kong		53	-
Two Exchange Square	100	Hong Kong		47	-
Three Exchange Square	100	Hong Kong		30	-
Podium	100	Hong Kong		-	5
The Forum	100	Hong Kong		4	-
Jardine House	100	Hong Kong	62	59	3
Gloucester Tower	100	Hong Kong	44	44	-
Landmark Atrium	100	Hong Kong	23	-	23
Edinburgh Tower	100	Hong Kong	45	32	13
York House	100	Hong Kong	10	10	-
Prince's Building	100	Hong Kong	52	38	14